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ABSTRACT

The conference reported here was held to bring together European manpower experts and United States representatives to discuss European manpower programs and policies developed and expanded as a result of the 1974-1976 recession and recovery, and methods for coordinating manpower and general economic policies. This report contains a list of the participants, the conference agenda, and a conference summary. Fourteen discussion papers are appended. The titles of these papers are as follows: "Recent Trends in Western Economies: Needs and Methods for Further Development of Manpower Policy"; "Exchequer Costs of Unemployment"; "Alternatives to Unemployment: With Particular Reference to the Experiences of the Federal Republic of Germany in 1974-1976"; "French Employment Policy During 1974-1976"; "A Trade Union View of Labor Market Measures in the United Kingdom"; "Pushed Out of the Cookoo's Nest: The Preference for Young over Older Workers in Belgian Social and Economic Policy in Times of Recession"; "The Netherlands' Interdepartmental Committee on Labor Market Policy"; "The United States Manpower Situation"; "Unemployment Benefits and Related Payments in Seven Major Countries"; "Overseas Experience in the Use of Industrial Subsidies"; "The Administration of Industrial Subsidies"; "Recommendation of the OECD Council on a General Employment and Manpower Policy"; "Employment"; and "Sector Policy: The Case of Swedish Shipbuilding." (EM)

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Reexamining European Manpower Policies

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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A REPORT ON A CONFERENCE SPONSORED BY
THE NATIONAL COMMISSION FOR MANPOWER POLICY IN
HANZINELLE, BELGIUM, June 1976

SPECIAL REPORT NO. 10, August 1976

1522 K Street, N.W., Suite 300
Washington, D.C. 20005

CE 015 881

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12. Recommendation of the OECD Council on a General Employment and Manpower Policy. The Organization for Economic Cooperation and Development, March 6, 1976, Paris. 229

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FOREWORD

The Commission took the initiative in arranging this conference as an outgrowth of its Special Report, Recent European Manpower Policy Initiatives, published in November 1975. That survey prepared by a consultant called attention to the diversity of manpower policies and programs developed or expanded by the Western European countries to moderate the rapid rise in unemployment which accompanied the severe recession of 1974-75.

It appeared desirable on the basis of these findings for the Commission to explore this European experience, before formulating its recommendations to the President and the Congress on a national manpower policy for the United States, in its second annual report (forthcoming late fall of 1976).

This, then, was the background for the Commission's sponsoring the European Manpower Policy Conference at Hanzinelle, Belgium, June 9-11, 1976 under a grant from the German Marshall Fund of the United States. Participants from Europe included experts from the following countries and international organizations: the United Kingdom, the Federal Republic of Germany, France, Italy, Sweden, the Netherlands, the Organization for Economic Cooperation and Development (Paris) and the Commission of the European Communities (Brussels). Attendees from the United States among others were representatives from the U.S. Department of Labor and from the Commission, including the Director and its consultant for the conference. Names and organizational affiliations of those present at Hanzinelle appear on pp. 9-12.

An opening word should be said on the Commission's decision to focus the discussion on the theme of Financial Support Schemes for Maintaining and Expanding Employment. The intent was to emphasize the links between manpower policy and macro economic policy by examining large blocks of budgetary expenditures, in terms of their effects on employment and unemployment, and as part of more general economic policy related to cyclical and structural aspects of the recession and recovery of 1974-76.

As the discussion developed, the approach proved effective in pointing up expenditure options, whether, e.g., unemployment benefits can be used more constructively by maintaining workers in jobs; the broad range of manpower policy concerns such as in public investment and industrial subsidies; the consequent need for better coordination of manpower and general economic and social policy.

Given the agenda, the European participants were chosen for more than expertise in manpower policy matters. To assure frank and open discussion it was agreed at the outset that the conference report would be written without attribution, except in special instances. Background papers commissioned for the conference and other documentation (see Appendix) were circulated to the participants in advance. So that readers can see the results of the discussions as viewed by a European, Mr. Kurt Lewin of the Netherlands served as general rapporteur for the conference.

The remainder of this foreword represents my interpretation of the principal issues which emerged during the conference whose sessions I had the privilege of chairing. In every instance I have sought to relate the specific issue or question to the concerns and challenges that our Commission faces as it seeks to formulate its recommendations this fall for a national manpower policy.

1. The severe recession of 1974-75 that increased unemployment rates in European countries from a 1.5 to 2.0 percent range to around 5 percent and even higher represented a new and unnerving challenge to manpower policy. For the greater part of the preceding decade to decade and a half the Europeans had quite properly concluded that they had learned to manage their economies so as to operate them continuously at, or close to, full employment. The 1974 recession made a shambles of that record and further raised doubts whether the ensuing recovery would enable these countries to reduce their unemployment rate to the previously low level.

2. The marked uncertainty about the future unemployment rate reflected a congruence of factors. One is the easy or reluctant acceptance that finance ministers have no option but to operate with a tight rein on fiscal and monetary policy to moderate remaining inflationary pressures and in no event to contribute to a new outburst of inflation. Another, much of the excessively high unemployment has a structural as well as cyclical basis, and remedies for structural unemployment such as the transfer of workers from unprofitable sectors of the economy, or the absorption of large numbers of young workers, present formidable hurdles that at best will be soluble only over time. Further, the widespread use of "short time" to spread work during the recession implies that it will take many months of sustained expansion before new workers will be hired. And there is considerable disquietude that economic growth may be considerably below the average for the 1960's, which would make the return to full employment that much more difficult. For these and still other reasons there is considerable caution and concern among European manpower planners about the early return to full employment.

3. Then, too, there is an unresolved question of the compatibility of the goals of full employment, free collective bargaining and price stability. Considerable support appeared for the proposition that full employment under free collective bargaining can be achieved, if reasonable price stability is a concurrent goal of national policy, only if new institutions are put into place that can assure that wages are linked to productivity. Some basis for optimism emerged from Swedish and recent German and British experience (based on hard-learned lessons of the 1974-76 period) that such institution-building or trade-offs may be achieved if the bargaining arena is more broadly conceived to include not only the market but political arrangements.

4. The principal methods that the Europeans used to moderate the severe rise in unemployment during the recent recession proved highly costly to public treasuries. Together with the costs of unemployment and other social benefits, the large expenditures for rescue operations in weak sectors and for benefit payments for short-time work

contributed to rising budgetary deficits. This resulted in dampening outlays for additional public services and traditional anti-cyclical measures such as public works.

5. The rescue operations involved a substantial infusion of public funds to keep afloat threatened firms and industries whose bankruptcy would have led to additional large numbers of unemployed. The risks of such public interventions were well known. At best they were holding operations, and not necessarily the best use of public funds for national productivity and international competitiveness. But the urgent demands by enterprises, the trade unions, and communities affected were difficult if not impossible for most governments to resist.

6. The widely favored use of benefit payments for hours not worked represented a form of work sharing through the reduction of average hours with partial compensation of income loss financed largely by the state. This scheme had merits in maintaining work forces intact awaiting the recovery and demerits with respect to mobility and adaptation. In reflecting on their experience the European conferees stressed that expenditures for the shortened workweek were perhaps justified under the circumstances but provided no real solution. It would inevitably delay the time when expansion took place, since the initial months of the recovery would see the employed working more hours until the normal workweek was restored. Incentives for overtime rather than for hiring new workers would also delay the rise in employment and the decline in unemployment.

7. A third measure resorted to for reducing unemployment was the accelerated retirement of persons in their late fifties or early sixties which took various forms. These measures placed an additional heavy burden on public treasuries and social security systems, often resulted in the loss of valuable skills, and denied the individual (in many cases) the option of continuing to work if he so preferred. On all of these grounds, the approach found no favor as a long-term measure. The conferees

stressed (in this connection and in others) that it was essential in future labor market actions to balance off short-run objectives, such as reducing the number of reported unemployed, with the medium- and long-term implications of each remedial measure. It was essential that growing rigidities in the labor market--a pervasive concern of the conferees--not be intensified by actions taken to respond to a crisis situation.

8. In probing why European governments had resorted so little to public works or public employment schemes during the recent recession the information was forthcoming that, in addition to the relatively high unit cost of the order of 4:1 per job on public works and income maintenance per worker via unemployment benefits payments, there was public resistance to actions that would result in enlargement of the public sector. Whether it was strong anti-government bias in countries with large public sectors and predictably rising expenditures for social services, or an anti-government bias in the face of a budgetary crunch with the threat of continuing inflation, there were in fact tendencies to reduce, not increase, employment in public services. Local governments lacked funds for anti-cyclical public works or temporary jobs. More generally this reduced resort to conventional measures reflected, in addition, a higher priority for public expenditures for restoring corporate profits and expanding investment as against consumption, whether in the private or public sectors, in order to strengthen the position of national economies in international trade.

9. The high budgetary costs of transfer payments for income maintenance gave particular pertinence to how such funds might be more constructively used--for employment rather than for maintaining the unemployed. The principles of distinguishing between gross and net costs of job creation and the social and human advantages of work over idleness, found a responsive note among the conferees. Data presented in background papers showed the possibility of a net return to public treasuries from expenditures for such purposes, taking into account the costs of unemployment benefits, together with loss of social security contributions and taxes on income and consumption (see Mukherjee, Exchequer Costs of Unemployment, Appendix, pp. 73-88.)

European countries had used wage and other subsidies in the recession for job creation and training, and with some success, but on too small a scale to have significant impact. The potential of a broad program of wage subsidies, not only for creating jobs but in an non-inflationary way, was viewed by many conferees as worth exploring; others expressed doubts, especially in the depth of recession, in the face of diverse market disequilibria and a shortfall in total demand. The dominant view was that the problem of how to reflate an economy speedily in the face of continuing inflationary pressures remained to be worked out both in theory and practice.

10. As to the structure of the labor market, the point was made not once but repeatedly about the apparently increasing segmentation of the European labor market, with some workers earning good wages and enjoying high benefits and considerable job security while many others were linked only loosely to the labor force, earning little more than the minimum wage and vulnerable to repeated spells of unemployment. It was emphasized that trade union leadership spoke for the employed with the unemployed poorly positioned to press their claims. It was often difficult, for instance, to obtain the agreement of the employed work force in the well organized sectors to any limitations of overtime, since they viewed earnings from overtime as part of their regular income, and overtime on a reduced scale had persisted even during the recession.

11. While the agenda did not specifically include the relation of education to work, the conferees repeatedly brought it up. There were frequent references to the growing discrepancies between the preparation of school leavers and the capacity of the labor market to provide an adequate number of good jobs to meet their higher qualifications and expectations. Most countries anticipate increasing difficulties as more and more university graduates are unable to find suitable positions. At the same time several conferees noted the concern in their countries with the low level of occupational preparation of many young people, especially those who

stop their schooling at sixteen or seventeen and stressed the efforts which had been initiated to strengthen and modernize their apprenticeship and training systems. Closely related to the education and work arena is the issue of good jobs. Increasingly the debate is shifting from a debate over full employment to a search for full employment with a simultaneous improvement of conditions in the workplace so that workers can derive more satisfaction from their hours on the job. The Europeans see a continuing need for foreign migrants in no small part because of poor working conditions in many industries, which the local population will not enter.

12. This summary has stressed the elements of congruence in thought and practice reflected in the discussions. But it must be emphasized that the conferees were in full agreement that each country's manpower policy is embedded in its unique social and political structure, constrained by its economy, and shaped by its distinctive history and experiences. Beyond this, if I am not mistaken, one pervasive view was shared by the conferees: in the present state of our knowledge resort to unemployment-creating macro policy to repress inflation is understandable, but there must be a better way, through a combination of selective demand and manpower measures to increase employment and reduce unemployment while keeping prices reasonably in check.

It remains for me to express the thanks of the Commission first to those who prepared papers and the conferees who made time in their busy schedules to participate and secondly to its Director, Robert Hall, and its Consultant, Charles Stewart, who established some kind of record in arranging and overseeing a conference in a foreign country that proceeded from start to finish without a hitch.

ELI GINZBERG
Chairman

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II. AGENDA

EUROPEAN MANPOWER POLICY CONFERENCE

U.S. National Commission for Manpower Policy
Hanzinelle, Belgium, June 9-11, 1976

Theme: Financial Support Schemes for Maintaining and Expanding Employment

Wednesday, June 9, Opening Session

1. Opening statement by the General Chairman: Professor Eli Ginzberg

2. The 1974-1976 Recession and Recovery: New Developments in the Coordination of Manpower Policy in Relation to General Economic Policy

   Special features of conjunctural developments in 1974-76--constraints on general reflationary policies of the past and major changes foreseen in the structure of industry and of employment for international competitiveness--evidence needs for more selective demand measures and of closer coordination of manpower and general economic policy.

Dinner Speaker: Professor Gösta Rehn

NOTE: The sections of the Rapporteur's Report follow the same numbering as the agenda items. The full text of Professor Rehn's paper is included in the Appendix.

Thursday, June 10, Morning Session

3. Budgetary Constraints on Selective Demand Measures in the Public Sector

Rising deficits, continuing risks of inflation, new concerns as to further growth of the public sector, resulted in constraints on discretionary expenditures for normal governmental operations, for expansion of traditional counter-cyclical measures, even for full implementation of ongoing investment programs. Mostly, expansionary measures on the expenditure side in the public sector were usually of limited scope and produced weak results.

* Consequences for public service employment and other selective demand measures for emergency job creation.
* Structural problems of local government finance--exacerbating the weakness of demand in private sectors.
* Problems of coordinating improvised emergency public works and planned ongoing investment programs.

Discussion Leader: Dr. William R. Dymond

Thursday, June 10, Afternoon Session

4. Wage and Investment Subsidies for Maintaining or Creating Jobs in the Private Sector

Despite deflationary macro policy, countries generally felt compelled to make massive expenditures for maintaining jobs and containing unemployment. Ad hoc rescue operations and planned expenditures for restructuring firms or sectors had obvious labor market policy justifications. Ordinarily their cost per job maintained or created vastly exceeded Treasury costs per unemployed worker. Conventional investment subsidies and incentives had limited take-up because of unused capacity and unfavorable economic expectations. Wage subsidy schemes gained support in these circumstances for expanding employment in a non-inflationary way--also possibly with the advantage of more than offsetting Treasury costs per unemployed worker.

* Investment subsidies or tax incentives versus wage subsidies for selective job creation in regional and industry development programs.
* Temporary wage subsidies--results limited to youth job and training schemes? and employment in small firms?
* Wage subsidies--as a major policy instrument for moving the economy off dead center and creating jobs in recovery in a non-inflationary way.
* Payroll tax reductions for maintaining or expanding employment--a policy question for financing social benefit payment schemes in the future.

Discussion Leader: Professor Santosh Mukherjee

Friday, June 11, Morning Session

5. Benefit Schemes for Reducing Unemployment and Maintaining Incomes: Alternatives to Unemployment Compensation

The high cost of unemployment benefits has given currency to financial support schemes that promise both to reduce the unemployment count and to provide alternatives to unemployment compensation as the major instrument for maintaining incomes of the unemployed and for minimizing disorganization of the labor market.

* Benefits for reduced hours of work--implications for mobility and structural adaptation.
* Training payment schemes in lieu of unemployment compensation--as structural measures for dampening inflationary pressures in recession and recovery.
* The retirement route--opening up jobs for youth, inducing exit of older workers.

Discussion Leader: Professor Juanita Kreps

6. Governmental Mechanisms for Coordination of Manpower and General Economic Policy

The capacity of national manpower agencies to participate in coordinating and administering economic policy varies from country to country, depending on their defined roles, governmental structures, relations with the social partners, and pre-arrangements for the timing and use of standby measures.

* National manpower institutions--Swedish, German, French and other country models.
* New mechanisms for intra-government coordination in the Netherlands and other countries.

Discussion Leader: Dr. Reinhart Bartholomäi

Friday, June 11, Closing Session

7. Comments by Participants

8. Conference Summary: Professor Eli Ginzberg

III. SUMMARY REPORT OF THE CONFERENCE

by

Kurt Lewin, Rapporteur
The Hague, Netherlands

A. Summaries of Agenda Items

Agenda Item 1. Opening Statement by the General Chairman

Prof. Eli Ginzberg, serving as general chairman of the European Manpower Policy Conference, welcomed the participants and expressed his appreciation for their readiness to offer their time and energy for this meeting, made possible in part by a grant from the German Marshall Fund of the United States. The purpose of this project, the Chairman said, was to expose Americans concerned with manpower policy to Europeans competent in this field in order to learn from their experience. He felt grateful for the holding of the conference in the quiet confines of the chateau as well as for the availability of valuable background papers.

The National Commission for Manpower Policy, he explained as its Chairman, is a statutory institution of an unusual nature, charged with the responsibility of advising the President and the Congress on manpower issues. In its Annual Report of 1975 the Commission states its intent to "deliver a general outline of a national manpower policy for the United States." The present meeting, the Chairman hoped, would help to prevent the Commission from re-inventing the wheel. For that reason it was necessary to know what has been done in European countries how their active manpower policies had worked and, especially, what measures and instruments had or not succeeded, and the reasons why.

There are considerable differences between the United States and European countries, and amongst them there is also a great variety. This must not be ignored, but the American participants wanted to learn as much as possible from European experience. That is the true reason for this meeting, but it is hoped that the possibility of a free and informal interchange will have a mutual value. Hopefully at the end of the conference the Americans will have found an answer to a number of special questions they have in mind:

- is it possible to convert income transfer money, particularly for unemployment benefits, for employment support programs and, if so, to what extent?

- what can be done with a wage subsidy approach for employment creation?

- what implications--on the income side, on labor productivity and on labor mobility--have the maintenance of employment relationships, between prospective unemployed persons and their regular work assignment during recession, for the long run?

- how can a guarantee for continuing employment be balanced with a reasonable degree of manpower mobility when unemployment problems arise for structural reasons in some industries or some parts of the economy?

- is it possible in times of depression of longer duration to continue production for inventory in order to maintain employment?

- does it make sense and, if so, what is the way to move people out of the labor force by facilitating early retirement through income transfer incentives, especially when unemployment rates may be much higher in the future?

- to what extent can training in order to prevent shortages of skilled workers in the future be used as a labor market mechanism in a period of recession?

- what should be the wage rates if jobs are created by government for either public works or special public services? and finally;

- to what extent is a manpower approach for real? Macro-policy is not able to impact particular groups, regions, industries with differentially high unemployment rates, but in what way are significant manpower programs different from any other kind of expenditures?

In the course of the agenda, the Chairman continued, all of these issues will be under consideration and he expected the discussion to be of great value. Before doing so, it was his pleasure to give the floor to Professor Gösta Rehn who needed no introduction at a European manpower conference, well known as he is as a pioneer and a consciousness-raising veteran in the manpower field.

Agenda Item 2. Summary of Remarks by Prof. Gosta Rehn: New Developments in Manpower Policy in Relation to General Economic Policy*

Professor Ginzberg's final question, "in what way would spending significant amounts of money on manpower programs be different from any other kind of expenditures," Professor Rehn volunteered to answer immediately. If the money is spent on getting more jobs such expenditure is not only different but a better way, because it is an instrument against unemployment while it dampens inflation at the same time. That is, in the speaker's opinion, exactly the story one should tell Finance Ministers. To most economists and politicians this sounds like a contradictio in adjecto, but in real fact, in the situation we find outselves in these days, it is much more paradoxical to reduce output, which increases the cost of labor per product unit, instead of increasing production.

In a fundamental debate, problems must be tackled as a game of chess: what must be feared is the most dangerous of black's possible countermoves. In the long term probably the greatest threat comes from the (not accidental) increasing amplitude of conjunctural swings. The ultimate effects of global fiscal-monetary policies are becoming very uncertain, while unexpected complicating factors like energy crises or disappearing fish will always be with us. When in great Western countries unemployment figures can reach peaks of 10 percent while prices are jumping up, traditional Keynesian instruments with their great risks of errors begin to resemble long rubber strings used to steer a motorbus from the backseat

Looking at the anatomy of the labor market it seems that rigidity tends to grow. Governments and trade unions

* The full text of Professor Rehn's paper is presented in the Appendix, pp.53-71.

greatly favor job security, quality of working life and such like, while employers have ceased to be so much adverse to such ideas as they used to be. That is because newcomers have a high turnover and are very expensive while the marginal internal costs of labor performed by an employee after he has been trained and becomes company-minded is often about zero. So it becomes more difficult to get workers into employment, the segmentation between those who are "in" and the outcasts come into the danger zone of polarization. But rigidity is strengthened by public resistance to what is called "careless handling of human beings," while wage elasticity to clear the market is not accepted any more. When great strains occur there is no smooth adaptation but often panicky and improvised rescue actions, particularly when a big enterprise has run into difficulties.

What then can be done? To achieve more employment without contributing to inflation should be possible by reducing employers' specific costs for production in adding to their work forces. That is precisely the point of attack in the absence of market-clearing wage differentials: to enable companies to expand employment, e.g., by allowing a marginal wage subsidy. The greatest profit from such a measure will not be for the employer and not even for the worker but for the public treasury. Figures from many OECD countries are available showing that the net gains for public funds from every unemployed who gets a paid job are often higher--on account of taxes paid, social security premiums and the savings from unemployment benefits--than the wages earned by the worker.

Marginal employment premiums can be combined with other measures, such as assistance for stockbuilding, training, regional development, special care for disadvantaged groups, or be conditional upon employers' undertaking such measures. They are anti-inflationary because the relatively small increase of a worker's income does not much change his consumptive power, while he produces goods or services for the market which can be offered for lower prices than in the absence of the premium. Not all of the revenues come directly into the national treasurer's trunk; some remain with municipal or other fund-handling agencies. This makes little if any difference in the immediate results for dampening

effective demand in the market. But there may be a mental block as to the source of demand for the new output of goods and services, which must simply be overcome. As far as the demand side is concerned, the dampening effects on inflation allow for an expansion of monetary policy, generating a market for the new products and services without inflation.

Up to now there is nowhere implementation on a scale to prove clearly that such policies can be successful. But, notwithstanding that lack of experience, in the speaker's opinion, the conclusion must be that the theory is sound and that marginal employment subsidies should become an increasingly important instrument of economic policy.

Agenda Item 3. Summary of Discussion: Budgetary Constraints on Selective Demand Measures in the Public Sector

Discussion Leader: Dr. William R. Dymond

The perception of the need to spend money from public funds for selective manpower programs is not the same in all countries. Preliminary figures from O.E.C.D. statistics have just become available showing that roughly speaking expenditures per capita in Sweden and Norway on job creation, training, employment service budgets, e.g., are three to four times as high as in other O.E.C.D. countries, including the United States and Japan. It would be interesting to know why.

Government Treasury interests are traditionally inclined to be most restrictive to all demands to expand public expenditures in times of rising deficits. In this recession that is all the more the case because they feel to be in the middle of the fight against inflation. So far as unemployment of a more than moderate scale is recognized as a policy issue, Ministers of Finance prefer to rely on unemployment transfer incomes as a principal means to keep the situation in hand. In that way the greatest hardships of unemployment are alleviated and demand on the market is kept from falling sharply. Their policies have a deflationary character and are therefore pro-cyclical in effect. To change their ideas very convincing arguments must be brought forward. The

question is whether selective demand measures, not giving inflationary inpulses, could be introduced to help macro-economic policy.

Such an instrument could be large-scale subsidies to give incentives to employers to engage marginal labor. Professor Rehn's strong plea for such a system as a major anti-inflationary and anti-cyclical manpower policy instrument influenced the discussions immediately, but a more profound examination of this issue was postponed to a later session. On this occasion most of the attention was given to methods and effects of temporary job creation by way of public works and by special government employment.

Public works, still being used, have been known for a long time as a manpower policy instrument; in most countries it is not of great importance any more. It did not find much favor in the meeting, though it was recognized that positive results may be expected when such works are directed to lasting improvements of economic or social infrastructure.

Various reasons were given for objections to public works:

- the costs of creating temporary employment in this way are very high;
- multiplier effects create inflationary impulses;
- it is difficult to plan suitable objects in advance and have them ready for execution at the right moment; municipalities which are generally responsible and get the subsidies are poorly equipped for such duties;
- public works are only suitable to counteract seasonal unemployment in depressed areas and, at the most, to bridge a temporary disequilibrium on the labor market during recessions of moderate impact and of short duration. This has been the conclusion even in the exceptional case of a country which recently has spent great amounts of public money on such works and where the system--based on computerized advance planning and centralized coordination--was regarded as a success.

As regards special public employment, there was mention of psychological resistance against accepting jobs which often are regarded as second-rate employment--an attitude in some cases strengthened by wage levels below the minimum--and also of ideological and political resistance against further expansion of the public sector, which in some countries has already grown into high percentages of the total labor force. Finally it was found that the danger of creating even more rigidity on the labor market was considerable because governments will be under strong pressure to continue indefinitely employment which was intended to be temporary.

It appeared that in many countries there is a certain amount of distrust of government when it concerns itself with employment ("meddles in employment," it is called). On the other hand it was recognized as significant that the security of public employment attracts many job seekers, even if wages are considerably below those in private employment, which in some countries is the case.

Attention was given to the most serious aspects of unemployment of long duration. Often it has a permanent or semi-permanent character and is apt to change the attitude to work as such. On behalf of such disadvantaged groups all known measures such as training, facilitating mobility, job creation and maybe job sharing must be used and, where possible and necessary, strengthened. And such selective manpower instruments will certainly have a beneficial influence on the labor market as a whole. But as a general view it emerged from this first discussion of the conference that they remain marginal in the macro-economic scene. They cannot be considered to be strong enough instruments to break the vicious circle of unemployment caused by lack of economic activity which causes unemployment and so on. That it will not be possible to end a recession this way and, surely, not to build a dike against the flood of structural changes on the labor market. In other words they are complementary to macro-economic policy measures, and as such are very valuable to correct the too generalized effects of such policies.

Agenda Item 4. Summary of Discussion: Wage and Investment Subsidies for Maintaining or Creating Jobs in the Private Sector

Discussion Leader: Professor Santosh Mukherjee

As an introduction to a lively exchange of views the discussion leader invited the meeting to consider a policy of wage subsidies in the private sector as a major instrument to create new jobs--a line of thinking similar to that presented by Professor Rehn earlier in the conference. Expanding demand, Mukherjee emphasized, is a measure of employment policy which is regarded to be in the dimension of "high" policy, contrary to manpower policy which ordinarily is thought to be concerned with the adaption of the labor force to a given level of demand.

Strong arguments were advanced in favor or such policies. If one looks closely at the costs of unemployment and compares them with expenditures for wage subsidies resulting in new employment, one obtains unexpected results. Unemployment costs consist not only of income transfer payments but also of loss of contributions for insurance from both employer and employee as well as of taxes from income and consumption. By the given level of these items it appears that in many of our countries governments would gain sums greater than the total earnings of the reemployed persons. The then added product of their work counterweighs their consumptive demand, the effect being anti-inflationary.

Being in the possession of that knowledge one should expect governments to jump to that solution of their unemployment problems. But there is the fundamental question whether governments really do adhere to the ideal of full employment and still believe in the possibility ever to reach that beneficial goal. It remains a fact that large scale unemployment has caused little shouting on the streets, not a single Western government has been in danger of losing office for that reason. Therefore, they may be well disposed to ride it out, by a deflationary policy on the cushion of income transfers.

The ensuing discussion centered largely on the effectiveness of such policies and their possible scale.

Wage subsidies in one form or another, mostly in combination with other tools, are not unknown as a policy instrument. In many countries they are in use, sometimes to maintain existing employment, as well as to support regional or sectorial industry policies, and to facilitate the placement of the young or other disadvantaged groups. But up to now nowhere programs of real importance in this direction with the general intention to create jobs have been developed, so that there is not much evidence of their effectiveness based on experience. Where experiments have been tried they were not based on the feed-back theory of the costs of unemployment, were small in scale and showed, possibly for that very reason, little takeup or results.

As to the indispensable collaboration of employers, it was found that they do not show much interest in such marginal subsidies, especially when they might involve government control or interference with personnel management. Perhaps more important, employers' preparedness to expand their labor force depends so much on expected market developments that they will not easily respond to such incentives in times of a prevailing pessimistic outlook. But it seems likely that as soon as the beginning of a cyclical upswing is felt, an incentive to engage more personnel might be instrumental in accelerating the restoring of a better equilibrium on the labor market and to bring in the financial advantages of reemployment to governments.

Seen from the side of the governments, different considerations were brought into the discussions. In certain countries the very idea of subsidizing wages directly for whatever reason would be unacceptable for ideological reasons. Elsewhere, it is feared that it would be not too difficult to begin but practically impossible to get out of it at the right moment, presuming that one knows when that has come. Another point made was that, even if the backflowing money stream would be as considerable as described, government itself would only get a small share of it. The savings on unemployment benefits, being the greater part, would in some cases go to private funds or municipalities, so that to some degree the weight of government subsidy expenditures would not be sufficiently compensated and the anti-inflationary advantages at least partly lost.

As concerns the fear of lack of market possibilities for additional products, the advocates of the wage-subsidy theory argued that the possibility of producing at lower costs and thereby to be able to sell at lower prices would tend automatically to enlarge the market, while it enables the government to use the obtained counter-inflationary effects to encourage general demand by easing its deflationary policies. Other participants in the discussion were not so confident in this respect. There is always a time lag, both for employers and government before any results can be felt, so that much confidence is needed on both sides. Then there are products, like automobiles, where the capital ratio is so high that marginal savings on wage costs do not really matter. Also there are products with little market elasticity and, last but not least, there are structural elements in evidence which make the expansion of employment in the manufacturing industry as a whole and in certain labor intensive branches, more specially, improbable.

The discussion showed that there is certainly a great preparedness to look very seriously at new possibilities which may be better than relying mostly on unemployment benefit systems during long recession periods. Such a possibility may very well be a new understanding of the wage subsidy system. But the general feeling was that there is no universally working model in our complex macro-economic scene. Structural changes make the achievement of full employment problematic, especially in view of the dynamic change in the supply of labor in the future. Demographic developments, the growing labor force participation of women, the evolution of mental attitudes towards labor as an indispensable necessity for the fulfillment of life expectations, they all have to be taken into consideration, as well as the expectations of a new generation with regard to the quality of working life. On the other hand, the need for manpower seems to be diminishing, as has been shown after each recession since World War II, when former production has been resumed with less and less labor.

Macro fiscal policy will be indispensable. Selective demand policy may well have to play a more important part in the future, and selective manpower policy instruments will retain their importance. More than in former times governments are compelled and prepared to assist private enterprise financially and

in other ways in order to bridge difficult periods and to maintain employment. They will have to break shocks when the labor market is threatened by sudden redundancies of scale or by forseeable structural changes.

An illustrative example of the latter situation was offered at the meeting by Mr. John Ekström who gave an expose of Swedish shipbuilding policy. It was described as much more than a rescue operation. When the shipbuilding capacity of the country was found to be 30 to 40 percent too large, a broad consensus between government, management and employees was reached. It was decided that, over a period of three years, 8,000 of the 24,000 workers in the industry will be laid off on conditions socially acceptable. This operation will be facilitated by the constant shortage of manpower in Sweden. The government's ownership and shareholding in the industry will facilitate closing one of the four big shipyards at the end of the three year period. It is expected that this very important operation will be successful and will provide a sound basis for the future of the industry. No subsidies are considered, financing had been assured on the capital market with government guarantees.

Agenda Item 5. Summary of Discussion: Benefit Schemes for Reducing Unemployment and Maintaining Incomes: Alternatives to Unemployment Compensation

Discussion Leader: Professor Juanita Kreps

Discussions on the theme of this session concentrated mainly on the question whether large scale unemployment necessitates a broader distribution of work between the participants on the labor market and if that would be possible and acceptable. Since the beginning of the century working hours as well as the average span of working life has been shortened considerably. In view of this development, manpower policymakers cannot avoid to face the time dimensions of work and to integrate this aspect in their thinking, not only in recession periods but also in terms of years to come. The problem becomes more or less important according to one's belief in the possibilities to regain full employment in the traditional sense through demand-expanding measures.

Are there new and better ways to tackle unemployment in the short and the long run by making working time flexible, by developing methods which could be called "social engineering"? That might mean a system making it possible to reduce working time in principle for everybody by 1/12th when the unemployment rate stands at 8 percent. Such perhaps futuristic policy thinking involves basic questions such as whether workers will accept a trade-off of income for free time, and of overcoming the still growing rigidity on the labor market.

Opinions on this issue differ widely. On the one hand, fear was expressed that spreading working time would be in the way of creating new job opportunities, that it is known that generally the income effect is dominating when leisure substitution is in discussion, and that there will never be sufficient labor mobility. On the other hand, a "right of absence" was strongly advocated to utilize free time during slack periods for training, second-chance education on all levels, or just to enjoy leisure. Furthermore, it was pointed out that the existing tendency to leave school at a later age and to retire earlier is thinning out the labor force structurally and that this development might lead in the upswing and, for demographic reasons, in the long run, to tight labor markets, so that experiments in work sharing might be dangerous. Another structural hindrance to smooth adaptation is the rising educational level of the young compared to the quality of industrial employment.

In most countries governments believe, apart from social security cushioning, in "first line of defense measures" against rising unemployment during conjunctural downswings. Short-time work is often regarded as the strongest and most efficient method, followed by prohibiting overtime work, and giving aid to firms in temporary difficulties. Training within firms or by government programs is also an accepted instrument, of which some countries report excellent results while others had disappointing experiences. Reasons given were lack of incentive when unemployment benefits are at a high level, fear of not being accepted in former employment and, on the employers' side, lack of prevision as to which kind of training would be

useful for future employment. Subsidies for producing for inventory seem to be an exception, but different kinds of direct or indirect wage subsidies are widely known on relatively small scales. The shortening of daily or weekly working hours (without reduction in pay) is so far as known nowhere considered and it was not advocated in the meeting. There was agreement that it would not be effective at all as a measure against unemployment if not applied generally and so substantially in terms of reduction in hours that costs involved would be prohibitive.

That was the general picture which emerged from the discussion. Nobody yet has any experience to speak of on schemes like flexibility of working life or work sharing as a policy, similar to the situation with regard to a large-scale wage subsidy policy.

Some countries reject the very idea of short-time work on principle. It means, it was said, keeping people in employment, paying them to produce nothing. Rigidity on the labor market is encouraged, employers get money from public funds not to adapt to necessary technological and organizational changes. And finally, the protection of employed workers when not needed is instrumental in blocking the entrance to new applicants, especially the young.

While these arguments are recognized as meaningful, defenders of the system are prepared to pay that price. They are convinced that, as soon as temporary difficulties are overcome, it will prove to be much more efficient and very much cheaper to have maintained existing production units with personnel already trained and available, than to start creating new jobs. Also they consider that layoffs are viewed most unfavorably by public opinion.

Temporary solutions for those hard hit by unemployment still can be found by public works or public employment as well as in extensive training programs. A combination with job creation for the young is also possible and some countries are very satisfied with the results of such programs.

There was no difference of opinion as to the dangers of irreversibility of various programs of aided

developments started during recession, possibly leading to overheating soon after recovery had begun. One notable observation should not be overlooked: economically speaking there is for long-term policy no reason at all for work sharing. That will be accepted or not accepted exclusively on the basis of a collective choice motivated by a strong sense of solidarity and--or alternatively--by leisure time in future being valued higher than (a further rise of) income.

Agenda Item 6. Summary of Discussion: Government Mechanisms for Coordination of Manpower and General Economic Policy

Discussion Leader: Dr. Reinhart Bartholomäi

To start the review of systems used in different countries, the discussion leader gave a short description of the organization of labor market management in Western Germany. There the two-level system is practiced: political responsibility rests with the Minister of Labor, implementation of policy with the Federal Institute of Labor (the Bundesanstalt). Coordination of manpower and general economic and fiscal policy is performed at ministerial level; it has never given problems of a special kind. The Ministers concerned meet regularly to discuss labor market problems in the broad sense, the Minister of Labor takes care of the necessary feedback of information and guidelines to the governing body of the Bundesanstalt.

That institute has sole responsibility for and great power of implementation within the framework of the law and the budget. That includes all possible instruments of manpower policy, that is to say, in principle, on the supply side of the labor market. As is always the case, its real power depends largely on the quality of the members of the governing body, appointed representatives of trade unions and employers organizations. As it happens, there are no real problems of coordination with the Ministry of Labor.

A more direct system of bringing labor market interests into the realm of central governmental policy has been blueprinted in The Netherlands, with implementation developing over a period of several years.

When, as a followup of an O.E.C.D. recommendation in the report on the country examination of 1967, a special Council for the Labor Market was created within the framework of the already existing Socio-Economic Council, it was felt that coordination between the Ministries directly concerned was indispensable. In order to harmonize the views of the high-ranking civil servants who represented their different Ministers in that Council, a special Committee under the chairmanship of the Director-General for Manpower was set up, called the "Interdepartementale Commissie voor de Arbeidsmarkt" (I.C.A.).

After some years of not very spectacular activities a much more important task was added to its duties: the examination of the budget of all Ministries for the year to come, with regard to consequences for the labor market. Special relevance was to be given to changes in (parts of) the budgets. In collaboration with the Central Planning Bureau keys have been developed which make it possible to translate monetary items in budgets globally into man-years of work. A bookkeeping system has been set up which registers additions, subtractions and totals in terms of man-years for each Minister's budget and for the government as a whole. It was used for the first time on behalf of the Cabinet's examination of the 1974 budget. Since then it has been ordered that each and every project of law when sent to the Council of Ministers for approval, must--in addition to the expected financial implications--show what consequences it will have on the labor market in the short and in the long run.

To avoid misunderstanding, it was stated that it cannot be said that in The Netherlands from now on manpower or even labor market interests will be the guiding principles for governmental policy planning. The project is still in an initial phase. But, having found full approval within the Cabinet, the I.C.A. has a chance of increased importance and to become a balancing power when conflicting interests with labor market implications must be decided.

It appeared that The Netherlands example is an isolated experiment. Though in most countries there are formal or incidental ways of dialogue and collaboration with the Ministries of Finance, Economic Affairs, Industry or whatever they are called, but integrated

systems have not been developed. Generally it was felt that a new kind of understanding and of regular collaboration between manpower and economic policymakers was really needed to solve the great labor market problems of this day and of the time to come. The same sentiment was expressed at the O.E.C.D. meeting of Ministers in 1976. But still it seems that first of all economic theory must be revised. Up to now macro economists simply see manpower policy nowhere near the center, though there are some signs at least of some interest in models other than exclusively Keynesian demand-management. But also it must be considered that there is no consensus in our countries as to what an active manpower policy is all about. Fear does exist that it might include government activities or even interventions at the micro level and so, it is said, socialism starts.

The different points of emphasis in this discussion led to the conclusion that only a kind of social decision would motivate policy planners to regard employment goals as important enough to put them at the center, accepting their deep effects on other policy goals.

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Considering the very considerable influence the wage-subsidy theory had during practically all sessions of this conference, Professor Gösta Rehn was invited once more to comment on it.

True, so he told the meeting, we do not know how employers will respond to the offer of wage subsidies on a large scale. Maybe not many of them will want it. That's not an argument against the theory. The problem is how to get employers to respond affirmatively. In view of the experience to date, it is an argument for redesigning the marginal employment premium, including its amount, and its administration. One should not get pessimistic because of mistakes, especially when first ventures have been set up marginally and probably therefore have failed to succeed in most cases. There is always a threshold to cross before any success can be registered. This was the experience in Sweden 15-20 years ago when the Labor Market Board started to introduce the principles of an active manpower policy.

Where Ministers of Finance do not dare to reflate by spending money on public works or other expendutures with big multipliers, or may be forced to willy-nilly, they must find methods to do so in ways to promote employment and break inflation at the same time. One way to do so is by the marginal employment premium, another is a reduction in payroll taxes. Such measures help enterprises to increase employment while at the same time improving the financial position of public treasuries--by increased tax revenues and reduced outlays for unemployment benefits. If not spent immediately these new-found sums have, of course, a deflationary effect.

Against the scheme, it is then argued, there is no market for the additional goods and services produced. But Finance Ministers can expand markets. If it's done in the Keynesian way, more inflation results. But if one starts with an increase of output, money can be expended without inflationary pressure because it is already counterbalanced.

Agenda Item 7. Summary of Participant's Concerns

Before proceeding to close the conference with his own concluding remarks, the Chairman invited participants around the table to comment on issues which in their opinion were relevant to the purpose of the conference. Responding to that challenge a number of individual observations were made:

On Policy in General

- the most important task is to press integration of manpower and economic policies;
- economic policy must be changed to become conscious of employment problems as a central issue, but not much is happening in that respect;
- in half of the European countries labor market policy is not recognized as a coherent problem area. Broad analysis is needed, followed by suitable legislation;
- Ministers of Finance speak a common language; not so Ministers responsible for different aspects of the labor market;

- the time has come to re-think the very goals of a labor market policy, to develop a theory of the ideal labor market;

- one should be modest in policy matters of the labor market and concentrate on high quality services, taking care of the local level;

- our economic systems evidently are too rigid, but policymakers shrink from experiments and prefer to do nothing when in doubt. New ways like making income related to work rather than to transfer systems are neglected;

- policymakers should be much more attentive to selective instruments in the public as well as in the private sector;

- economic theory being what it is, the impact of manpower arguments is very limited, even if manpower authorities have access to the highest level of policy decisionmakers.

On the Conception of Unemployment:

- what has happened to the full employment ideal? Are we running away from an active labor market policy?

- in the longer run the place of work in human life will be different from the one we are used to and that means a different outlook on unemployment too;

- it cannot be expected that the service sector will offer unlimited employment opportunities to all workers who have been displaced by technological progress in the other sectors, as well as to all people who want to join the labor market. A new definition of the very concept of unemployment has to be found.

On Unemployment Benefits and the Working Population:

- while income transfers to the unemployed in recession periods save markets from disaster and make life bearable for receivers, they put a button on disadvantaged people: "You are on welfare, I work." That should be avoided as much as possible and therefore wages for public work or employment should never be below minimum level;

- if social security transfer payments become so good that they approach wage levels, little financial incentive is left to go back to work or to accept training. There are already countries facing such problems;

- in the 1980s the still increasing participation of women and the higher educational level of the young will create new problems if an equilibrium cannot be achieved in good time;

- there is gross rigidity on the labor market, strengthened by segmentation, which is against workers' real interests;

- there are countries where a high level of living is threatened seriously by continuing inflation, a low participation rate and a high degree of visible and invisible unemployment. Income transfers then become a burden on civic solidarity so that the growth of social security costs must be curbed, a painful operation.

On Employment and Education:

- education is, of course, important but it is of no direct concern to labor market policy;

- educational policy is of main interest to labor market policy, the two should work much closer together.

On Large Scale Wage Subsidies:

- the theory points in the right direction;

- ...hesitant to give an advice at this stage;

- ...have been converted to the idea though it has not worked yet. It can and it should be done better;

- it could be a new instrument especially to be used at the beginning of an upswing, but it can never be regarded as the main line;

- the theory is worth study in depth. Before this possibly new instrument is put into practical use on a large scale, policymakers must know what gains and what possible disadvantages to expect;

- this theory will be studied with great care by special experts;

- do not wait until it is too late for selective measures, such as wage subsidies, to be of any use.

On Measures for the Short Term:

- the vigor with which training and employment policies are pursued is impressive;

- very good results have been achieved in training and job creation for the young, and in regional actions;

- little interest has been shown for training and less for geographical mobility, probably by lack of attractive financial incentives;

- on the level of implementation the accent must be put more and more on understandable labor market information and on counseling job seekers;

- the surest way to be ready for the upswing and to avoid unnecessary unemployment hardships is short-time work. It must be spread over as many workers as possible to avoid full-time work for one part and total idleness for another of the labor force;

- large-scale public works can still be useful as a first line of defense measure against cyclical unemployment.

On Policy for the Longer Term:

- the focus must be industrial investments, not for profit in the first place but in the interest of employment;

- for the coming decade demand-oriented policy has to be put at the center;

- European countries will have to face more serious structural changes than the United States;

- European labor markets will be strongly influenced by demographic developments;

- demand-management will have to be the most important instrument, directed principally to the private sector, taking into account the diversity of economic structures in different countries and the development of Third World countries.

On Early Retirement:

- the already existing trend can be accelerated, but that would be a major policy decision which can influence the labor market in the short and in the long run considerably;

- early retirement once encouraged is practically irreversible; it is a sensible move only if old age pensions are adequate and that entails very high expenses.

On the Role of Social Partners:

- manpower policymakers should never forget that the social partners not only are in the game, but that it is employers and trade unions who run it.

On Gratefulness:

- on behalf of all European participants sincere thanks were given to the Chairman for the way he had presided over this conference, and to the National Commission for Manpower Policy and the organizing forces within and behind it. It has proved to be a most profitable meeting for the non-Americans too, especially agreeable because of the setting of the conference in the pleasant Belgian countryside.

Agenda Item 8. The Chairman's Concluding Remarks

At the end of the conference Professor Ginzberg made a number of observations which he himself described as one man's preliminary responses.

In order to be able to report to the National Commission for Manpower Policy and to assist in the formulation of manpower policy for the United States, it was thought most opportune to get to know how Europeans with their longer experience in manpower policies had responded to the recession and what thoughts they have for the longer term, and especially which development of institutional or political nature may be the underlying cause for strength or weakness of different policies. Listening to the debates the Chairman felt that evidence has been obtained on a number of points:

- The recession really shook up manpower policy in Europe. It was not expected in such force and duration, ending the great hope of maintaining or even recovering full employment.

- If manpower planning and political attitudes were not prepared for such developments, the uneasiness became worse on account of the new phenomenon of an inflation of very high proportions, while one could not rely anymore on the expectation of a continuing rapid growth rate.

- Not much has been said during the conference about the inflation rate, but it is a fact that many countries have not yet come to grips with it, which is necessary to sustain a reasonable economy. This causes restiveness in the relationship between manpower and general economic policy.

- Great amounts of income transfer money are floating around. Solutions have not yet been found how it could be put to a more constructive use both from the employment and the output points of view, apart from its function to keep recessions from getting still worse.

- The repeatedly discussed question of large-scale wage subsidies has not found a clear answer at this time. With objectivity it must be said that experience up to now tells little and what it tells seems not to be very positive. The

theory Professor Rehn has brought forward so ardently is not an unimportant one. It has the intention to push policymakers very much further. It must be analyzed most seriously and the author must be given a chance to prove it by responding to such a study.

. Looking at the evidence it appears that in Europe not any kind of manpower policy was conceived ahead of time to be implemented stagewise in a severe recession. There were not even many experiments to find new solutions. Governments went to instruments like short-time work, early retirement, extension of school leaving age, training, some rescue operations. All this could have been done long ago after the start of an active manpower policy. Clearly not only Finance Ministers but the whole population was so upset by the unknown combination of a severe recession and an alarming inflation rate that one did not dare to do more than try by elementary processes to prevent unemployment figures rising to still higher levels.

. Finance Ministers were not inclined to regard manpower policy as an suitable area to spend money on large scale experiments, such as expensive public works, putting aside one notable exception. Generally they were satisfied with income transfer systems, so that nobody would starve or might even exist above the sheer minimum level. Their primary idea was fighting inflation and--at least in the early stages--to keep budget deficits from rising too high.

. Not unfamiliar, but totally unexpected was the pervasiveness of an anti-governmental mood in European countries. Critical, skeptical and even cynical views were brought forward with regard to government, of manpower policy and, more important, as an employer in general, even for the handicapped. (At this stage when interrupted by participants, the Chairman stated that it might be his misinterpretation of certain statements made during the meeting, but so was his personal understanding.)

- After the happy experience of European countries in the 1950s to the early 1970s, the whole conception of the full employment goal is up for re-study and re-analysis. Structural changes of major dimensions in all of our countries are outlined already against the horizon, many issues on the micro level have become controversial to the old ideal. It has been learned the hard way that one cannot have full employment, a free trade union movement and no income policy without inflation. If one puts employment programs really very high in his priorities one simply has to accept also some kind of structural arrangement how to divide the national product, how to handle investments and such questions.

- There is no question that a better understanding between manpower policy and economic and fiscal policy must be achieved. The difficulty arises at this stage that it is not altogether clear what manpower arguments are and what requirements can be put forward when hearings are granted. Such discussions are easier in the field of social security, educational systems, etc. The reason may be that in comparison to economic policy the whole concept of manpower policy is fairly young in history, even in Europe.

- A serious problem of a social and political nature is a growing segmentation within the labor force. Some people are on the inside with jobs and security, other people on the margin have only occasional jobs or none at all. The question how to solve this problem may be at the heart of the nature of social and political reform. It would be a too narrow view if one would not think of the implications on the labor market in the long range or at least in the intermediate term.

- It will not be easy or possible to transplant policies and instruments, however successful they may have proved to be in one country, to another. That becomes evident if one looks at two countries as similar in many ways as--taken for an example--Sweden and the U.S. and as different in many other respects. Sweden's labor market is

about that of New York City, its population is homogenous, it has a totally different social, political and administrative structure. But we are blessed with the same kind of more or less Keynesian economic theory. Here one finds really a third dimension of larger constraints in the operating field of manpower policy.

- In view of the magnitude of the problems manpower policy is facing, the stage of our knowledge is modest. Resolution is needed to define certain goals and relate our knowledge to our capacity to realize them. It is a conclusion of this conference that there exists a great discrepancy between what is known and how to do it. Even if the full employment goals were moderated and applied to those only who are already on the labor market and only to the lower income groups, the problem could not be solved with our knowledge and the instruments at our disposal. That is not new in life. One has to go on with the work, learn more, be more creative in his job.

These were, according to the Chairman, the lessons learned at this most unusual meeting in unusual circumstances and surroundings. So useful these lessons looked to him that it should be considered to expose some Europeans to a U.S. environment. Not being able to make any explicit commitments at this stage, he thought that it might not be a bad idea to have some labor leaders, industrialists and responsible people from the Treasury, etc., participate at such discussions.

Finally the Chairman expressed his hope that the meeting has had its value not only for the Commission but also for the European participants. He thanked the German Marshall Fund for what he called its imaginative support, brought thanks to the hostess of the conference center, to Mr. Charles Stewart and Mr. Robert Hall, and to Mlle. Kreps, for the preparation and smooth progress of the conference.

B. Some Reflections of the Rapporteur

Having listened with full attention to the discourse of experts of international repute on the theme of this European Manpower Policy Conference during five intensive sessions, it would have been wonderful if the rapporteur could have informed his readers about the solutions found to the problems and the policies needed to gain and maintain full employment, or at least something near to it. But, alas, again the philosopher's stone has not been found. If the goal was, as the Chairman said at the beginning of the meeting, to prevent the Americans from re-inventing the wheel--after the meeting they will not be afraid to continue their efforts. True, the Europeans have developed quite a number of good segments, but the finished product still looks oval.

Such a state of affairs evokes some fundamental questions. Full employment has been defined (it is one of the definitions) as the situation which makes it possible that everybody who is able to work and who wants to do so, has the opportunity to work. Governments have recognized the right of all mankind to gainful work and to freely chosen professions and employment. Does that entail that they are obliged to guarantee at all times employment opportunities to every citizen belonging to certain age groups according to his or her abilities and preferences? Have, on the other hand, all these citizens the duty to work according to their ability. And, if so, is every kind of work suitable in principle for every citizen? Clearly, the answer to such uncompromising questions must be: no.

Isn't it realistic then to try and find a better definition of what full employment really means and, one more question, why it is to be regarded in future as ever the ultimate goal of all manpower policy? Surely, in Western society, that has something to do with ethics and morality. The Pilgrim Fathers, coming from protestant Europe, no doubt adhered to the grim adage "he who does not work shall not eat." But is

in our days the utmost exertion of the whole population between such and such age during eight hours a day--five days a week--really indispensable to the wealth of our nations and the pursuance of happiness for all our fellow citizens?

In an age when machines have taken over so much of the work man had to do by hand in former times and when so much work is done which could not be done at all without machines, it might be useful to analyze once again what economic activity is all about and to what extent we have come to regard it as an end in itself, instead of a means, what it must have been in the beginning.

In different ages the esteem of labor has not always been the same, neither is it now in different countries. In the opinion of the hero in James Hilton's famous novel "Lost Horizon" the Romans were fortunate, because their civilization reached as far as hot baths without touching the fatal knowledge of machines. He does not mention that the honorable gentleman who used such fine installations during many hours a day regarded work done by hand, of course, as his slaves' business. In Dicken's age the situation was slightly different. Most of his freeborn contemporaries, men, women and children, had to work very long, very hard hours every day just to keep alive a few short years.

Since then science and technology have made it possible that in Western countries only a very small percentage of the population can feed unprecedented multitudes of people better than ever before. Workers displaced by this progress in the primary sector found new and better paid jobs in manufacturing industries and, in our still young post-industrial era, the service sector has absorbed the overflow when secondary employment became stagnant. It is not impossible that the production of goods will grow further substantially in volume as well as in value; but, the price of labor being what it is, employment will not grow in proportion. Besides, more and more of labor intensive and technically not too sophisticated production will be taken over inevitably by the so called low-wage countries. Well, there is always the service sector. This is not the place to analyze

whether that has an inexhaustible employment capacity, at least for services regarded as reasonably useful, but there is reason to have some doubts. Somebody has to pay for services and the price of labor being what it is...

Demand for labor, of course, is not an unchangeable quantity. It reacts to costs and certainly also to the available quantity and quality of supply. But it has proved not to be so flexible that it can absorb the more severe cyclical influences and its adaptability to major structural changes is very slow, to say the least. On the other side the labor force also reacts to demand. In slack periods potential participants are discouraged to enter the labor market; the thinning out of the labor force by shortening the working life and, in a number of countries, by retreat into social security systems, all make unemployment statistics look nicer than they ought to. The growing and as it seems unstemmed participation of women has, of course, an opposite effect on them.

Let us suppose for a moment that the demand side fulfills its obligation towards the full-employment challenge, are then all our problems solved? They are not. Some jobs need skills which applicants lack and are unwilling to acquire even when they are offered the opportunity. In very many other jobs so little skill is involved that they are far below the aspiration level of people with a prolonged school or university education. There are jobs too far from the blessed place of birth or too inconvenient to reach from home. The higher the nation's wealth and the better the social security system, the less incentive there is to accept work not exactly in line with abilities and preferences. Millions of the less desirable places of work have been filled by migrant workers, many more millions of them stand ready to take over the moment we draw up our barriers at the borders again. This aspect of the labor market is not unknown in the United States and it is not exactly a negligible quantity, having a direct relation to full employment. It is remarkable that it was not mentioned once during the conference.

But then, there is the lack of mobility of the labor force. That had its full share in the discussions. Gross rigidity, it has been called. The very word has a sinful sound; it leads to segmentation of the labor market which is, of course, a very bad thing. Also keeping people in employment when temporarily not needed for production (that is the philosophy of short-time work) is creating a fool's paradise, while it looks like social progress. So it has been said.

With all due respect for the soundness of such macro-economic chains of reasoning, it may be said that it resembles that of general staff officers. One has only to interchange the words labor force and military force and the similarity becomes evident.

When not planning for war but, to the contrary, for peaceful goals, it must be allowed to consider how the human beings concerned want it. Even if it would be better for them to listen to the planners. Well, there can be no doubt of lack of flexibility. People fear insecurity in life and, indeed, workers generally regard involuntary dismissals as careless handling of men. Well intended actions to further mobility of employed and unemployed alike meets more resistance than gratefulness. If that were not true there would be no complaints about rigidity. Theories and policies not taking into account such facts cannot be expected to be very successful in a society where the urge of sheer physical need as well as forced labor has been abolished.

One more aspect of human attitudes relevant to labor market policy may be mentioned here. Whatever governments and many economists think, whatever trade unions demand and employers may fear, it is not always true that people when personally confronted with the choice between an increase or maintenance of income and more free time, automatically give preference to the money aspect. If that were the case, how could it be explained that so many older people gladly accept the chance of an early retirement, which nearly always entails a partial loss of income? Why then are so many young people of a different social background, fruits of an affluent society and often better educated than their parents were, so much less career minded than former generations?

To say that such remarkable signs of changing attitudes are anywhere near the average of people's thinking would be a gross overstatement. But one should not exclude the possibility that a trend is signaled which may gain much more impact on a future labor market. The whole matter of another distribution of labor, which was in the discussion, depends, so we are assured, on the preparedness of people to value their leisure high enough. It is not unconceivable that the relative merit will be judged differently when another generation should give the word leisure a purport that means not in the first place time to relax but freedom to be active in the pursuance of personal concerns in life. Then indeed another distribution of employment opportunities could be - or must be - considered, opening an approach to the solution of the problems of the dual labor market too.

There is always a risk in expressing this type of thoughts. They are easily classified as belonging to the soft-pedaling theories of society reformers with more qualities of the heart than the brain. This rapporteur is well aware of the danger and will not be surprised by criticism. But, reflecting on what has been said at this conference and what has not been said, with some knowledge of the often very traditional ways macro economic theories are implemented in labor market policies, it seems not totally superfluous to point to a few items which--in his opinion--merit more attention than they usually get.

Most of the questions brought forward have not been answered. That is not a rapporteur's duty. But they should be studied and be given the most realistic consideration. If there is truth in the underlying suppositions or in at least some of them, the results of such studies must have an impact on economic theory concerned with the labor market and on policies.

Gouverner c'est prevoir. That goes not only for governments, but not in the least for the Social Partners too, who claim to run the game. That means that forseeable structural changes, may they be even no more than possibilities, be regarded as serious challenges now. That's much better than reflecting afterwards.

This manuscript has been finished on the Fourth of July 1976. The rapporteur had some other reflections, not written down on the still young nation defending our freedom.-----K.L.

APPENDIX

CONFERENCE BACKGROUND PAPERS AND DOCUMENTS

RECENT TRENDS IN WESTERN ECONOMIES:
Needs and Methods for Further Development of Manpower Policy

by

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INTRODUCTION

I am trying to debate fundamentals rather than the present phase of the business cycle - or conjuncture, to use the non-English terminology - even if our remit includes drawing the conclusions of the experiences of the recent recession. In this debate we must take the position of a chess player: he is not so much interested in the most probable moves of the other player; he must figure out what moves to make in order to win, whatever the opponent does. If the latter is a weak player, so much the better, but that is irrelevant. Similarly, world economic policymakers, playing against the unknowns of future economic developments, must figure out how to beat both unemployment, inflation and stagnation in the nastiest cases, say, if each new upswing tended very rapidly to develop into a new inflation.

Therefore, in my survey of recent developments of importance for shaping manpower policy to solve the unemployment-inflation dilemma, I point out a number of risks inherent in current trends. Not least the unexpectedly strong and lasting employment difficulties of the latest recession (but also earlier tendencies) should be regarded as warning signals.

The general conclusion of my series of observations is that the case is growing stronger and stronger for the establishment of machinery for manpower policy which can act selectively, forcefully, and rapidly to take care of imbalances and disturbances in the labor market by all the different methods available, because the global instruments are less and less apt to stabilize the economy near full employment. The rigidities and other complicating

factors, which I have observed, make this conclusion imperative. Instruments for action are needed, which can be applied quickly to the points of imbalances but also be quickly discontinued or redirected when the situation changes.

My more specific conclusion is that the instrumentation of manpower policies must be reinforced by a broadened and intensified utilization of various types of a Marginal Employment Premium (MEP). This can be made more directly anti-inflationary and more easily started and discontinued than most other programs for similar purposes. But it can also be designed to compensate for permanent employment difficulties of disadvantaged groups and areas.

Let me first formulate some central postulates and theses (elementary, fundamental, banal or doubtful) based upon a mixture of well established facts and a more intuitive feel for straws in the wind as signals as to what we have to expect.

I.

It is easy to see that global instruments (overall fiscal-monetary policy) can neither prevent cyclical swings nor produce full employment without inflation. The lags between defining what action is needed and its actual effects are so long that judgement about timing and dosage is hazardous and leads to stop-go patterns. And, by definition, non-selective instruments cannot provide for well-balanced situations everywhere, because conditions are always uneven; inflationary bottlenecks appear in some areas long before a generalized expansion policy has created full employment in the more severe problem areas. The discussion is obviously not about all that. It is about the question of whether one should best leave the market alone to take care of the imbalances and accept the unsatisfactory situations (e.g. "the natural rate of unemployment needed to prevent inflation") or whether one should intervene selectively to promote adjustments (e.g. by helping the market really to work as it is supposed to, and in this case, how and how much?).

Here we can make a number of observations about current developments which strengthen the argument for applying selective adjustment policies concerning employment. To a great extent, my background analysis is in conformity with that of those governments or international organizations which now appear resigned in face of the difficulties and accept an increased level of unemployment as average over a cycle (and probably even at the peak of the next boom compared with previous ones). The difference is that I am speaking of what to do in order to avoid drawing their resigned conclusions from our common analysis: to apply much more than hitherto those employment-expansion methods which are anti-inflationary, non-inflationary, or at least less inflationary than traditional "Keynesian" methods for expansion. I am thinking both of strengthening already traditional and widespread policies for selective adjustment in the labor market (on the demand as well as on the supply side) and of a more intensive and extensive use of the innovation which has appeared mainly in the last five years, though still on a limited scale, namely, the marginal employment premium in all its various forms. Because of the topic given for this seminar, I am of course giving special attention to the latter. This should not be interpreted as if I regard this as a panacea, forgetting about the rest.

Let me particularly point to the following features of Western economies. These indicate that the recently increased amplitude of the conjunctural swings is not accidental, and that we must change both our institutional set-ups and the quantitative scope of their application in order to prevent the level of unemployment at each phase of a cycle to remain far above the rates we saw during the 60s, and even to rise further - all, of course, combined with the goal of reducing the rate of inflation to something considerably nearer to zero than presently is envisaged in most countries:

(1) Increased international interdependence with respect both to capital movements as well as to the exchange of goods and services, both among the industralized countries themselves and between them and the third world, including the hazardous capital market governed by the big oil producers.

This makes monetary policy (fixing of interest rates, etc.) difficult to use as a means of steering the economic activities of a country. The more or less speculative flows of international capital can force an increase in interest rates at times when a decrease had been desirable for the national economy and vice versa. All this tends obviously to reduce both the possibilities for each government to judge how world economic developments will influence its own country in any period to come, and to act adequately even if it knew precisely what the needs of the moment were.

(2) The increasing general (real) level of income and wealth.

This has made the flow of consumer expenditures more independent of the current flow of income, and this in turn has meant that the results of governments' balance-keeping measures of either fiscal or monetary policy, to increase or reduce purchasing power, have become more unpredictable. When they release money in large amounts to counteract a slack, people may refuse to use this money but rather save instead, as a result of psychological factors; but since one cannot know if this increase in saving is temporary or permanent, one is hesitant to react by releasing additional supplies of money, which would be necessary for a real revival of the economy, for fear that both the first released money in addition to a new release would begin actually to be spent and give rise to an inflationary boom getting out of hand.

The effects of general depressive measures are just as unpredictable, the measures will be either too extensive or too limited. It is difficult to make a correct estimate, and the margins of error are broad. This observation led already in 1970 to the conclusion, made in the OECD report "Inflation, the Present Problem," that the amplitude of cyclical swings must tend to grow with the increasing level of income and wealth.

(3) Increased levels of government expenditure, particularly for social transfers and public services.

The proportion of GNP being taxed away from income-earners for these purposes has generally grown strongly with the growth of income per capita. The level at which this trend has played itself off has, however, been lower in the United States than

in Europe. Fears of a taxpayers' backlash seem to prevail irrespective of the present relation between the level of taxes and the level of income. This obviously reduces the freedom of maneuver with respect to steering the economic situation by tax rate variations. It tends also to reduce the scope for solving employment problems by deliberate further expansions of public services. This part of total employment will probably continue to grow anyway, because demographic and sociological factors are leading to increasing demand for them and because of the slower growth of productivity in these sectors than in the goods-producing sectors.

(4) The destabilizing effects of "built-in stabilizers"

These are often welcomed for counteracting recessions. But if the "recession" is the result of a deliberate policy of restraint, they function as a factor compelling policymakers to exaggerate the employment-reducing aspect of their policy of restraint, because effective demand is not being reduced in relation to the supply of consumer goods, at least not to the extent needed in order to have the intended price-dampening result. The effectiveness of any unemployment-creating price restraint policy is reduced by the small difference there is in income (due to high taxes on the one hand and high unemployment compensation and social welfare payments on the other hand) between consumers who work and who do not work. (One can easily imagine a situation in which the demand inflation is worsened by a misdirected policy of employment reduction).

(5) The fact that we have suddenly been reminded that unemployment can approach 10 percent and that even outside Latin America the rate of inflation can reach two-digit figures.

This shocking realization of the existence of stagflation in itself adds to the feelings of insecurity and uncertainty which in turn breed errors of judgment concerning the right action to be taken. This difficulty applies even to those who - politically and economically - know what they want: this may then be to buy off inflation by unemployment, to buy off unemployment by inflation, or even to solve the double

dilemma of avoiding both these evils and upholding the balance-of-payments equilibrium and a democratically tolerable distribution of income and wealth.

(6) The experience of a great number of failures for monetary stabilization by income policy.

The great dream of many politicans and economists was to provide full employment by a strongly expansionist fiscal-monetary policy and then to ask trade unions to hold down wages for their members to such an extent that two results would be achieved: something approaching price stability, and profits big enough to ensure a high rate of investments (the latter needed for the establishment of the necessary number of new places of employment to be substituted for those disappearing by technical rationalization).

We do not need to indulge in any comprehensive analysis about the hopelessness of this dream (e.g. workers on the shop floor organizing wage drift together with their bosses, when these have plenty of money and the labor market is tight). I only underline that all these efforts, even when they have appeared as temporary successes, have broken down after some time and led to inflationary wage-price explosions. The confidence in such policies, which is a fundamental psychological precondition for their application as an alternative to a severely deflationist and employment-reducing fiscal-monetary policy (and not made possible as a result of such a globally restrictive policy), has thus been destroyed. It seems to be the disillusionment with this policy that is one of the reasons behind the currently resigned attitude of many governments in face of the unemployment-inflation dilemma.

(7) Growing demands for a policy of wage equalization.

Perhaps this is more relevant in Sweden than in other countries, but signs of this tendency are found also elsewhere. Alongside the increased intensity and mechanization of capital, this phenomenon increases the differences in "profitability" from the view of industry between persons with different personal capacities. One needs only a very small mistake or

negligence for the productive result of an expensive machine, minus repair costs, to be decreased by the same amount as the entire wage of the person who works with it. Not even a wage difference of 100 percent between different persons would be able to compensate for such differences. This can perhaps in part explain the stricter avoidance of persons with even relatively limited degrees of alcoholism, and of persons with other personal difficulties.

(8) Growing demands for employment for all marginal groups within the population.

At least in some countries this is a politically important ideology. At the same time, egalitarian principles oppose wage differentials of a size which could make the less attractive groups more competitive. For example, the demand from women for equal pay becomes politically more effective as more women enter the labor market to seek paid work. According to the "laws of the market," this otherwise would presuppose a relative wage decrease for them, so that all women would be in demand for productive employment. In this connection it is of secondary importance what happens first: the more ambitious slogan "employment for everyone" and concomitant measures which bring forth previously passive reserves into the labor market, or a spontaneous growth of requests for employment among people earlier outside working life. The stream of women into the labor market, which is the largest factor, is in any case a natural social phenomenon.

(9) Growing difficulties for geographical harmonization of supply and demand of labor.

The industrial sector which is geographically mobile is mainly the goods-producing industry, while services must be located where there are people - which in turn is influenced by two main factors: where the people have grown up and settled down, and where industry has by now been established. But precisely the manufacturing sector, which must be influenced if one is to equalize employment between two parts of the country, has assumed a decreasing share of the labor market. It would be easier to solve regional problems if one could localize part of the other, the growing industries, to areas of unemployment.

(10) Concentration of unemployment in low-status groups.

Employment reductions - and even more the braking of employment expansion - tend in the first place to hit those vulnerable groups which have the loosest relation to the labor market: inexperienced youngsters, housewives seeking paid employment after long periods spent in the home, aged and handicapped workers, immigrants and other minorities, all groups which have little influence upon the wage-price-profits spiral. A policy of global economic restraint has to be very severe before it hits the more well-established and powerful categories of people with the most decisive invluence on economic developments. But the latter are also creating more and more employment-security arrangements for themselves (see point 11), thus further reducing the anti-inflationary effectiveness of economic restraint and unemployment.

(11) A growing rigidity of labor markets.

On the surface, and partly even in reality, this appears as stability and as social progress: employers cannot or do not want to dismiss workers lightly; more and more laws, agreements, industrial and public-relations considerations, and sometimes even short-term profit calculations lead employers to display a similar attitude to labor as was the tradition in public service, namely, to regard labor as a fixed cost. They have learned that once you have let your people go, you may have to incur considerable costs to get them back again.

As this latter feature of economic and social development in our countries is of particular importance in the context of our discussion about future manpower policies, I shall make some more comprehensive remarks to this and the related previous points.

II.

The social demand for employment-security, the strengthening spirit of nonacceptance of deliberate employment reductions in private enterprise, are rather explicable by a number of economic and sociological trends: job security was always a strong tradition in the white-collar occupations;

the fact that these have been strongly expanding has not only automatically increased the rigid element in the labor market, but also makes it appear less and less tolerable to deny similar security to the blue-collar people. Another casual factor is the invasion of the labor market by women. The number of families where both husband and wife are employed in income-earning work is rapidly increasing. When there is a need for structural change in industry, a man does not lightly undertake such a change if his wife cannot follow him, and vice versa. Both put high priority on a certainty of keeping the jobs they have, compared to having to look for other and better job opportunities elsewhere.

Improvements in unemployment insurance payments could perhaps be seen as a measure making people less reluctant to be dismissed, but the shock and stigma attached to dismissal are not overcome so easily. Furthermore, any increase in labor-market adaptability created in this way is counteracted by the fact that these reforms make workers more resistant to demands on them to obey the signals of the market for a change of occupation or residence. This effect is reinforced by the fact that the combination of taxes, strongly increased in the past few decades, and the high social insurance benefits (for unemployment of otherwise), have created a "poverty trap" in many individual cases: the gain in income a person can achieve by moving from non-employment to employment or from a low to a higher paid job is very limited, thus reducing the interest a worker can be expected to take in changing his job. Severance pay was introduced on a broad scale in Great Britain in 1965 in order to make a "shakeout" tolerable. Since then, similar schemes have been introduced in other countries as well. In the longer run, these are in themselves, however, a factor that makes each employer cautious about anything that could imply a need for variation in his work force.

All this makes it rather evident - and establishes as a fundamental long-term trend and not only as a set of temporary reactions to the upheavals of the first half of the 1970s - that the lags between variations in

production and employment tend to become prolonged. A setback does not look too dangerous (politically and socially) because its effects on employment come slowly, mainly in the form of employers not hiring persons from less attractive categories or by short-time working. As the groups with most influence over wages are ordinarily not very hard hit in the early stage of the stabilization action, a government intending to brake inflation feels that it must be stubborn in keeping to its globally restrictive stabilization policy.

When, at last, this has gone so far that a new expansion is possible or politically necessary, the existence of an over-capacity of labor on the payroll of most firms makes the return to higher employment slow. Employers, seeing the risks and costs of hiring additional workers try to keep to their existing work forces as long as they can. The expansion needed to approach full employment cannot be expected to come about without a price increase covering the large extra cost connected with expanding production with additional workers compared to the use of existing workers. And it is precisely this price increase which governments fear. Therefore we must envisage a clear risk that Western economies establish "a well-balanced economy with unemployment."

With economic growth reestablished at a relatively satisfactory rate, this situation may invite complacency among the vast majority of people, not too worried by the risk of unemployment concentrated upon the low-status groups. Obviously they then must disregard both the economic loss from underutilization of the nation's whole working capacity and the probably dangerous long-term consequences of keeping a fringe of second-class citizens outside the orbit of steady work, leaving them to the demoralization of recurrent unemployment or even permanently outside the labor force - however much of it may be alleviated by "generous" unemployment insurance benefits.

We have indicated the very great difference in all employers' marginal costs for production when using the employees he has already in his service

(practically zero, as he must pay them a wage whether they produce or not, when labor has virtually become a fixed factor of production) and for hiring additional workers. In the latter case, there are not only the additional wages, but also costs for seeking and training suitable candidates and for extra-high turnover among newly hired personnel. The latter costs are particularly high in a situation approaching full employment because of the rise of turnover due to quits, when workers feel certain they can find new jobs easily. In addition, those workers whom an employer can find in the labor market as net additions to the work force in a tight labor market are largely less efficient than those who were hired in a slack market.

It has often been noted that all this tends to create a polarization between those workers who are attractive to employers and those who are less so, that is, "a dual labor market." I am using this expression in a slightly different sense from that applied in the American debate. There it seems to stand for a dichotomy between "good jobs" and "bad jobs." I am thinking rather as we do in Sweden: of an "A" team and a "B" team - those who employers want to hire and those they want to keep out - or simply of "segmentation." (Of course there is an interconnection: if there are more "good jobs" we will get more "good workers" and vice versa.)

Particularly in manufacturing industry, where the capital-labor ratio is largely very high, the economic difference in profitability between two persons with only a small difference in personal capacity (e.g. regular attendance, punctuality, dexterity, capacity for maintenance besides routine work) can easily become larger than the whole wage. Employers therefore on the one hand become reluctant to adapt their work forces to short- and even medium-term variations in sales and, on the other hand, they become interested in enterprise-specific training and other devices which can bind workers they regard as

"good" (e.g. workers at least accustomed to the tasks of the enterprise) to the firm. Employers are no longer as reluctant as in earlier days to give workers some form of job security guarantee.

This "rigidification" of the labor market looks like stabilization of employment, and in some respects it is so in reality, too. Even a big reduction in production does not lead so quickly to any concomitant reduction of employment. But a in all reductions of elasticity, this has its dangers: what cannot bend, breaks, when the pressure has grown strong enough. To some extent elasticity is provided by switching between overtime and short-time work, by somewhat "careless" handling of foreign ("guest") workers, and by letting attrition run its course along with a policy of "no hiring" during slack periods.

But basically the change of the work force from being a variable to a fixed factor of production means that one must reckon with sudden breakdowns, when paying a number of persons wages for producing nothing or for stockpiling has led to an exhaustion of liquidity. Recently we have seen a number of dramatic and panicky situations of that sort compelling governments to take rescue actions which are totally unplanned, very expensive and risky, and which upset both short-, medium- and long-term plans for cyclical or structural policy.

When Western labor markets have developed further in the rigid-security direction, because this appears as the immediate (short-term) self-interest of the overwhelming majority of both employers and employees, we may see this type of drama multiply and move from the "big micro" to the really broad macro stage. I do not suggest that this is going to happen in the very near future: We can now live in a fool's paradise for another period of economic upswing. What I am discussing is not the development between June 1976 and December 1977 or anything of the sort. I am discussing the principles for reasoning about the next few business cycles. It is here we have to fear - and to counteract properly - the risk of more violent swings between troughs and peaks.

The fact that labor has become, or is becoming, a (quasi-) fixed cost does not mean it becomes a fixed asset, which can be registered on the books as a basis for mortgaged credits. This is particularly the case for newly hired workers. A newly bought machine can be an asset on your books, even it it is not in use for the moment, but the investment in hiring and training a worker cannot be regarded as an asset in the same way, especially not if he has already left for another job, as he very often does soon after starting a new job.

We may now sum up the foregoing observations about the rigidness of the labor market: to increase his work force has become an increasingly risky and costly undertaking for a private employer, compared to just continuing with the workers he has already in his employ. These marginal costs include much more than a proportional increase of the running wage payments. On the side of labor, the factors which sometimes combine into a "poverty trap" are reducing what the individual can gain by switching from non-work to work or to better-paid jobs. At the same time, several features in the development of labor markets increase the costs, risks and difficulties connected with changes of job for an individual. Instead, public treasuries have become the big beneficiary of anyone's switch from non-employment to employment, or from low- to high-wage jobs. (In the Annex, I have supplied a table showing the calculation.)

CONCLUSION

If we agree on these various observations about developments in the way Western economies and labor markets are functioning, certain conclusions follow:

In view of the growing difficulties of maneuvering a country's economy and labor market with global fiscal-monetary instruments, countries must reinforce their legal and administrative machineries for selective adjustment, particularly in the labor market. This reinforcement has not least to affect the traditional forms of active manpower policy, promoting both manpower adaptability and the steering of demand for labor to manpower surplus points. But it should also imply a particular development of the most directly anti-inflationary methods for the increase

of employment and production, the marginal employment premium in its various forms. On the whole, it is necessary to shape all of these instruments so that they can be rapidly started but also rapidly redirected or discontinued in view of changing situations.

The logic of the emerging situation is clear: the government is the actionnaire who can expect the greatest financial advantage from increasing employment, particularly when this implies an increase of the output of goods and services on the market. Therefore, governments are bound to make growing efforts to reap this advantage, something that at the same time counteracts inflation. One can make a fairly safe bet that payments to buy more employment, including marginal employment premiums, will become an increasingly important element in the economic policy of Western countries in the coming years.

This development trend has already begun to show in an increasing number of countries. Most of the schemes applied have, however, hitherto been rather timid and cautious, and in some cases they have been disappointing due to bad design and administration. I recommend these countries to go forward in this direction with greater determination, because they have many economic and social gains to achieve in this way.

The provision of forthright cash grant in the MEP form has the advantage of extremely simple administration (if they are not complicated by ambitions to achieve very specific and complicated goals or by fears of some inequities in the division of the benefits of the schemes). Thus, such schemes can be started and discontinued at short notice. This makes them particularly useful as selective supplements to the overall economic stabilization policy. It is particularly important to reduce the difference of costs between giving an hour's or a year's work to an already employed worker or to an about-to-be-hired worker. In part, this is done by facilitating geographical and occupational mobility on the supply side, because this reduces employers' search and training costs for new workers. In part, it must be done by more directly reducing the marginal cost for additional workers, particularly when they also belong to marginal (disadvantaged) categories,

inter alia by generous offers of MEPs. Without strongly reducing the costs of employment expansion we cannot expect such expansion without heavy price increases.

What we have to discuss are various methods of application: premiums (or payroll-tax reductions) to the upper margin of existing employment and/or to additional employment in private firms and in municipalities and other government agencies, for any sort of personnel and all over the country, or in marginal areas, sectors or occupations; premiums to the hiring of marginal categories in total or for upholding and/or increasing the number of jobs for each category, such as the aged, handicapped, and young workers, those with long unemployment or long periods of household work behind them, those with little schooling or experience in relation to their age, etc. A matter to be considered separately in each case according to its merits is whether the premiums (or tax and fee reductions) should be big and short or low and long or even permanent. Finally, one may have to contemplate whether the premiums (whatever their kind and construction in other respects) should be conditional upon the employment provided being combined with an increase of inventories, with the provision of training, or maybe with some other investment.

One must also consider whether the situation is one where a lot of unused capacity exists, so that the premiums should be constructed for an increase of labor input at given equipment or if the marginal premium should be an incentive to expansion of both labor and capital capacity.

There are also particular conclusions to draw from the observed risk of an increasingly rigid labor market. We cannot (and, in my opinion, should not) try to make any retreat toward a lower degree of employment security, despite their element of rigidity and ensuing risk of more violent crises and less elastic adaptation when necessary structural changes have to occur.

Instead, we must introduce more forceful instruments to help the individual to free himself from the elements of serfdom which are inherent in that job security, i.e. reinforce all facilities for geographical and occupational adaptability - the supply side of active manpower policy: give everyone opportunities for adult training and education ("labor market training," paid educational leave, recurrent education), introduce schemes for mobility allowances, long-service leave, flexible retirement, etc. In other words: rather than reducing working time across the board in the mistaken belief that this solves any employment problems, provide incentives for individuals to apply those various "freedom rights" in such a way and at such times that it always helps keeping a good balance everywhere in the labor market. Furthermore, make the laws and contracts about job security as far as possible dependent upon age and not on seniority in the firm, i.e. give similar job security to those who have been a relatively short period in a job so that a change of employer becomes less damaging to one's security; let all pension rights be vested to follow the individual wherever he goes; eliminate perverse rent structures that make new settlers in an area pay much more than earlier inhabitants.

ANNEX

Demonstration of the financial effects to public treasuries of a person's switching from a state of non-employment to paid work.

Consider the left column in the table attached: If an employer pays 100 money units for a person's work, one part of this consists of payroll taxes and social insurance fees etc.; in a typical European country this may be estimated to be 20 percent of the total, disregarding those which immediately increase wage earners' income via health insurance, family allowance funds etc. The rest, 80 units, is the wage-base on which the direct taxes (state and municipal) seems to be some 17 percent for an industrial worker in European countries. We round off this reduction to 15 units and arrive at 65 units per day as the worker's net income from a job for which the employer's expenditure is 100 units. The person may or may not have received some social benefit when not working; we mark this unknows reduction from his net income

by "-x." We assume further that the indirect taxes on the increased consumption is 15 percent or 10 units so that "the State" (including various social insurance funds etc.) receives 45+x units or about half of the employer's expenditure.

However, the switch from non-employment to paid employment usually concerns persons who actually have a job during most part of the year; those who are unemployed are so on the average a couple of months. Thus the taxes to be calculated if one otherwise unemployed day is changed into an employed day are the marginal taxes. These I have estimated at 30 percent (rounded to 25 units) in the European case (second column). These persons usually get unemployment insurance benefits when not working. This we estimate at 30 units after taxes. The net income increase is thus only 25 units after taxes, out of the 100 which the employer has to pay. Deducting 5 units for indirect taxation on this increase of consumption possibilities we arrive at 20 units going to the worker and 80 units to "the State" (all public treasuries taken together).

In order to calculate the actual effect on the public treasuries of an increase in employment, one must not only know how many persons belong to various categories but also make numerous other modifications to the simple and approximative figures of my table. These do not, however, change two fundamental observations I want to make: first, that the return to the public treasuries from any transfer from non-employment to employment is very considerable, and second, that persons in high administrative and political positions, when asked about the situation in their respective countries in this respect, usually considerably underrate this effect. This appeared to be the case when I first showed my table to members of the OECD Manpower and Social Affairs Committee in March last year, and the experience has been repeated with few exceptions when I have posed the questions to other persons in ministries of finance, labor or social affairs in labor and management organizations, etc. (Unfortunately, I have not made any systematic inquiry, but simply made it a habit to pose the question. Out of some 100 persons asked, perhaps

five or ten seemed to have a realistic idea about it. When you give an account of the figures involved, nearly everyone, of course, recognizes the facts.)

The reason for this situation is probably that developments in the form of increasing both unemployment benefits and tax rates have been so rapid that most persons who lived their formative years before 1960 simply have not digested them or incorporated them into their thinking about economic and manpower policy.

Who gets the income from one additional wage earner's jobs?

(Very approximate figures; some are rounded to nearest 5)

	Europe		U.S.	
Gross wage cost	100 units		100 units	
Deduct: Insurance fees etc.	20		10	
Units	-20		-10	
Remains: Taxable wage	80		90	
	Aver.	Marg.	Aver.	Marg.
Deduct: Direct tax.	17	30	16	25
Units	-15	-25	-15	-22
Remains: Net after tax	65	55	75	60
Deduct: Loss of soc. benef., units	-(?)	-30	-(?)	-40
Remains: Net income incr.	65	25	75	28
Deduct: Consumption taxes	15	20	10	10
Units	-10	-5	-7	-3
Remains: Net real income incr.	55	20	68	25
Income for "the State" (=All deductions)	45(+?)80		32(+?)75	

The figures are estimated round averages from an OECD survey of taxes and social benefits in industrialized countries 1972.

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EXCHEQUER COSTS OF UNEMPLOYMENT

by

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Context and background

Once the phase of recovery from World War II was over, Governments of Industrial countries approached the task of managing their economies with reasonable confidence. Since, say, 1973, uncertainty and some confusion has replaced that earlier confidence. A variety of factors have played a part in bringing about this change. The nature of the transformation can be summarised briefly: whilst Keynes set himself to work out the remedies for unemployment without having to worry about price stability, governments are now in search of measures to remedy both unemployment and inflation.

Quite clear signs point to governments having allowed their commitment to full employment to be eroded by their alarm about strong rates of inflation. "The worst recession since the Great Depression of the 1930s" * which began towards the end of 1973 (being, at the start, associated with the energy crisis) was made as bad as it turned out to be precisely because the authorities in all industrial countries were unwilling to take remedial measures which carried risks of continuation of the then prevailing high rates of price rises. All of this was happening when the conventional wisdom concerning the trade-off between unemployment and inflation was seriously open to question. Indeed, in many industrial countries rising unemployment was accompanied by a a surge in the rate of inflation during 1974 and into the early parts of 1975.

* From statement by the Hon. William J. Usery, Secretary of Labour, United States at the OECD, 4-5 March 1976.

Developments since 1966

There is evidence (see Appendix Table I and Figures A and B), very clear in some countries but a little less firm in others, of a rising underlying trend of unemployment in the EEC countries since about 1966. Moreover, that increase of unemployment has been disproportionately distributed among different groups participating in the labour force.

Though there are variations from country to country there is a tendency for a greater burden of unemployment to be carried by the younger members of the labour force. In Britain, for instance, during 1966 the under 20s accounted for a little less than one tenth of all employees. In that year they had only fractionally over 10% of total unemployment (a perhaps legitimate share of total joblessness). By 1972 the situation had changed. Though the under 20s were something below 8% of the labour force in that year they had over 12% of the global total of unemployment. Similar results appear if the analysis is repeated for those who are below 24 years of age. Preliminary investigation of data in several other Western European countries shows similar results.

It is very likely that this upward movement of unemployment in several EEC countries is a consequence of both insufficient aggregate demand and of structural deficiencies. Gradually, since 1966, governments have preferred the emergence of a slack in their economies. They have chosen a lower level of total demand in order to fight inflation with unemployment. Policy-makers have done this at a time when empirical evidence has shown up the weaknesses of the Phillips relationship. Once again it must be noted that, naturally, no government has plainly announced that it has demoted the full employment objective in order to give priority to price stability. But this is probably one of the clearest examples of action speaking louder than words.

Room clearly exists for a number of views about whether the recession should have been allowed to develop and to become so severe. By mid-1974 governments in most industrial countries knew quite clearly that the down-turn would be more severe than at any time since the Second World War. Yet, official pronouncements played down the consequences for employment that could be readily forseen at that time. There can be little doubt that a deliberate and conscious decision was made to abandon the target of "full employment".

It is quite possible that the attitude of governments of industrial countries in 1974 marks a turning point in the objectives of economic policy in western industrial countries. No Western European government has been in danger of losing office though there are 5.5 million unemployed in the Community countries. Once embarked on this course, and having found that large scale unemployment is tolerable, the target of full employment may henceforth become (as is already the case in the United States) more a matter of words than an operational objective.

These attitudes and approaches cast a long shadow over the future. It would take a brave man to say that a sustainable recovery from the recession has already started. It would be a very foolish man indeed who might claim that the EEC plus the rest of Western Europe will have GNP growth of more than 2½% in 1976. It requires neither courage nor foresight (but just arithmetic) to say that with growth of around 2% in the coming year unemployment is bound to rise quite a lot beyond the present level.

Bases for current policies

If, as suggested above, it is true that governments deliberately allowed the emergence of a slack in their economies resulting in rising unemployment, they could hardly, at the same time, be expected to be taking measures to reduce the amount of unemployment.

That tautology is permissible as a fair description of the situation as it has been since the end of 1973. In effect, governments have not attempted the reduction of unemployment but the easement of its burdens on the jobless. They have tried through selective measures to take the edge off the disproportion of the amount of unemployment which hits particular groups in the labour force. They have, that is to say tried to spread unemployment out more evenly among the total work force. Secondly, governments have relied on what are, by the standards of the 1930s, remarkably good short-term state-provided unemployment benefits to contain the dissatisfaction of those for whom work is not available.

Moreover the great caution of the governments of the countries with stronger economies makes this slow growth situation the most likely future prospect. If the recovery were to peter out - and that possibility cannot be excluded - then unemployment in EEC countries generally, and certainly in Britain, instead of declining from the highest levels in 40 years reached in 1976, would scale newer heights.

No real comfort can be taken from the other view, that of a sustained upswing, with industrial economies pulling clear of the deep recession. For if growth is fast enough to return the Western economies to full employment in the late 1970s it is not at all unlikely that there will be another world commodity boom as in 1973-4, leading to a repetition of the great inflation and subsequent slump. Even if renewed inflation on this scale is avoided, the experience of the past decade and more indicates that, despite cyclical improvements, the underlying upward trend of unemployment will continue.

Wages and unemployment

One pillar on which current government policies stand is the need to contain the growth of wages. Though many governments are questioning the mechanistic relationship between levels or rates of unemployment and wage growth which was hugely fashionable

throughout the 1960s, in practice they are still tending to act as though that relationship does exist. Yet, no one can be in any serious doubt that the idea that workers' push for higher wages is reduced by higher levels of unemployment is a gross oversimplification. More and more people nowadays are employed in tertiary sector activities, particularly in governmental and quasi- governmental institutions. Rising unemployment usually bypasses this group, and does nothing to reduce their capability to push for wage increases.

Beyond that, there is now general recognition of the fact that the greater burden of growing unemployment is carried by the young, the older workers and women. No one can convincingly argue that these groups are the originators of inflationary wage demands. The push for wage increases comes from the "core" labour market. This is composed of workers who have skills which are in demand, and who are of the prime age group (above 25 but not much above 40) preferred by employers. Irrespective of the total level of demand within industrial economies, it is this group (and this age category) which is least exposed to unemployment. The notion that higher unemployment (from which they are largely sheltered) will reduce cost - push inflation by moderating wage claims from members of the "core" labour market is not very sensible.

It does not, of course, follow from that argument that there is not some level of unemployment at which wage demands by organised workers will become muted. On the other hand, there can be no doubt that the diminution of wage rises through that strategy would require some quite enormous rise in unemployment - perhaps a doubling of the present 5.5 million within the Community and much more than the current rates in Britain.

Of that much enlarged unemployment, by far the greater weight would be carried by people in the "outer" labour market - who have little to do with the generation of inflationary wage demands. With that in mind, and in the light of the costs of unemployment discussed below, there is little to commend even the efficiency

of a high unemployment strategy as a method of containing wage push inflation.

While the reasoning for the strategies employed by governments from end 1973 onwards is very open to question, the plain fact is that most of them still remain extremely cautious about stimulating sufficient demand to bring about a significant reduction in the levels of unemployment. There has also been a problem about what governments could actually do to get a recovery moving. Private investment, particularly in manufacturing industry, by general accord is thought to be highly desirable both for replenishment and enlargement of capacity and as a way of taking up some of the slack during the down-swing. But across-the-board tax incentives for private investment are expensive if they are taken up on a large scale, nor has industry in Western Europe (quite rationally) been over-enthusiastic about new investment at a time when demand was depressed and seemed unlikely to pick up in any significant way in the near future. Yet, all governments have been looking to an investment-led recovery: some have been soothing themselves with expectations of an investment plus export-led recovery.

If those expectations are more wish fulfilment than realistic prognosis of the state of Western European economies, governments are much attached to what they regard as a realism in regard to expansion of public expenditure. Additional government spending on conventional public works programmes which could be swiftly unemployment reducing are firmly rejected not only by exponents of the alleged attractiveness and efficiency of free market forces but, also by governments themselves.

Indeed, the strength of opposition to the growth of public expenditure has evidently become so great that there is confusion and hostility (even within governmental departments) when public funds are deployed, as for example in Britain to aid British Leyland and Chrysler, in order to prevent the crumbling away of

large sections of productive capacity and the emergence of even greater unemployment. Yet, in the context of current systems of social security and taxation, as is argued below, and increasingly recognised by a growing body of official opinion, state subventions of this and comparable kinds can be less costly to the Exchequer than the passive provision of income maintenance to the unemployed.

The cost of unemployment

The central question is what budgetary expenditures or tax incentives (revenue losses) can potentially reduce unemployment at costs less than those incurred by the Exchequer for the maintenance of people who are out of work. The remainder of this paper is concerned with an attempt to make a rough and ready assessment of the gains to public funds through the re-employment of a person who is unemployed.

It is possible to attempt this otherwise forbidding task because the OECD has compiled revenue statistics of its member countries on a comparable basis. Using that, and other data, we have calculated the income gained by governments in EEC countries when an unemployed worker becomes employed. The Table (on page 8) focuses on the financial costs to governments (and thus to society as a whole) of unemployment.

No attempt is made in the Table to assess the economic costs to the community from the loss of output which would be produced if the jobless person was at work. Even with this limited approach conceptual and practical difficulties abound in estimating changes in governments' income when a person who is jobless and dependent on unemployment benefit moves into gainful employment.

Nor would it be right to claim a very high degree of precision for the specific figures in the Table. Absolute exactitude is practically impossible because of the complexity of each country's

Table ___ Income gained by Governments in EEC countries when an unemployed worker[1] becomes employed (as percentage of earnings)

	UK	FRAN.	GERM.	ITLY.	NLND.	BELG.	IRLD.	LUXM.	DENM.
From Social Security Contributions									
by employee	6	8	14	7	19	11	3	11	6
by employer[2]	6	39	14	n.a.	19	37	3	11	1
From Income Tax[3] [4]									
single man	20	7	16	3	14	11	19	14	35
married man (with 2 children)	11	0	8	2	11	8	9	4	28
From (indirect) Taxes on consumption of goods and services[5]	2	9	6	4	6	7	4	5	8
Total of above items of income to Government:									
for single man	34	63	50	14	58	65	29	41	50
for married man (+ 2 children)	25	56	42	13	55	63	19	31	43
Gain to Government from saving of social benefit payment to unemployed worker[6]	65 - 72	90	80	17	80	60	65	60	90
Total income to Government									
single man	99 - 106	153	130	31	138	125	94	101	140
married man (with 2 children)	90 - 97	146	122	30	135	123	84	91	133
Final income to Government[7]									
single man	98 - 105	139	112	30	122	114	91	90	101
married man (+ 2 children)	89 - 96	138	111	29	121	114	81	86	101

Notes and sources

(1) Male production worker, in manufacturing industry, with average earnings for that category of employee in 1972.

(2) (3) (5) Revenue Statistics of OECD Member Countries 1965 - 1972: Annex 1, Table 9; Annex 1, Table 3; Part 3, Table 8.

(4) Including local income tax for countries which have it.

(6) Main sources: European Commission's answer to written question No. 719/74 in the European Parliament; Hansard, 16 July 1975; Revenue Statistics of OECD Member Countries 1965 - 1972. Difficulties about methods of calculations give these figures a lower level of assurance than the other data in this table.

(7) Calculations for item 'Total income to Government' assume that no income or consumption taxes are paid on unemployment benefit. As this causes an over-estimate of the gain to governments, the final two rows of the table recalculate this income assuming all taxes are paid, at the normal rate, on unemployment benefit (except for Ireland and the UK where only consumption taxes have been deducted).

n.a. - not available

social security and taxation systems and difficulties in establishing cross national comparisons. But, as will be seen, even estimation errors as large as 10 - 15 per cent would not effectively weaken the force of the findings discussed below.

Bearing all of that in mind, the Table still gives an unambiguous and striking measure of the magnitudes of the costs and of the weight of the argument against keeping people unemployed. The basic statistics for this calculation are social security contributions (from employee and employer) and taxes generated when a person ceases to be jobless and becomes employed, as well as the unemployment benefit which need no longer be paid. Governments achieve an income gain in each of these three areas.

Governments of the EEC (and other industrial) countries ensure the provision of income to an unemployed person, generally, at a level related to his previous earnings. The precise proportion of previous (earned) income that is maintained in this way differs from country to country, and cannot be calculated with total accuracy for each country. It can be estimated, with reasonable confidence, that for unemployment lasting 6 - 12 months it is as much as 90% of previous earnings in Denmark, and in specific situations, in France; and, as little as 17% in Italy. The United Kingdom figures in the Table are higher than is generally thought to be the case. Quite how much Britain has slipped from the van of "welfare states" is evident from the fact that despite the possible overestimate of that country's unemployment benefits (in the Table) they are much lower than in France and Denmark, and quite a bit less than those paid in Germany and the Netherlands. Britain's provision for the maintenance of incomes of its unemployed is higher only than tiny Belgium, even tinier Luxembourg and the two poorest Community Countries - Ireland and Italy.

But these comparisons are not entirely right - in Britain, unlike the other countries, unemployment benefit is not subject

to income tax. This pushes up the effective benefit rate in Britain. Those who decry the alleged generosity of British benefit levels and the disincentive to work which they are supposed to provide, would do well to reflect on the fact that, after tax deduction, benefits in France, Germany and the Netherlands (but not Denmark) still remain a little higher than the effective rates in Britain. Even more important, UK benefit levels, given in the Table, rather inequitably fall sharply after six months of unemployment, while other countries maintain unchanged benefit payments for at least 52 weeks.

Apart from the payment of unemployment benefits, within the social security system itself there are revenue losses to the Exchequer when an individual is unemployed - the loss of employee's and employer's social security contributions. Moving away from the social security system, even where income tax is payable on unemployment benefit the tax yield is obviously lower from unemployment benefit than from earnings when employed. Again, though consumption taxes on goods and services are taken from unemployment benefit, revenue is reduced to the extent that the unemployed person's expenditure and spending patterns are modified.

Estimates presented in the Table relate to the male production worker in manufacturing industry, with average earnings in that sector of employment. Average earnings are taken for 1972 from the OECD publication "Revenue Statistics of OECD Member Countries, 1965 - 1972". Though earnings from this category of worker have risen substantially since 1972, this makes little difference to the calculations as taxation and other relevant items have broadly kept pace with that change.

The first three items in the Table show government levies in the form of social security contributions (including the amount paid by the employer), income tax and consumption taxes as percentage shares in a worker's gross earnings. Adding these

items together gives the total of the government's income from the worker's earnings (the fourth item of the Table). Two sets of these figures are given to reflect the different tax treatment of married and single persons.

In the fifth item of the Table is the estimated gain to the government from not having to pay unemployment benefit. This figure is less accurate than others in the Table but it is a fair indication of the size of saving involved. Total income to governments (the perultimate item of the Table) is the sum of the gain from each source: taxation, social security contributions and unemployment benefit, when the individual (single or married) moves into employment. The outcome of these calculations is arresting. In France, Germany, Netherlands, Belgium, Denmark and Britain governments gain (through new income and reduced expenditure) sums greater than the total earnings of individuals who cease to be jobless and are brought into employment.

The figures "Total income to government" have been recalculated to appear as "Final income to government", in the last two rows of the Table. The purpose of this recalculation is to take account of those factors which work to reduce the gross income to the state as shown in the previous item of the Table. Even after that is done, in France, Germany, Netherlands, Belgium and Denmark the financial gain to the state generated by an unemployed worker becoming employed still remains greater than the gross earnings which the individual receives from his job. The conclusion from this analysis is that in, for instance, Britain, government expenditure of up to 90% of average earnings of industrial workers to enable people to work rather than be unemployed would lead not to an increase but a reduction of the budget deficit. In five of the other countries in the Table public expenditure for generating employment could be higher still with the same benign outcome for the budget deficit.

That analysis suggests that there is a serious under-assessment by governments of the cost of unemployment. This failure to recognise the true economic impact of unemployment gives rise to considerable confusion about the role of public expenditure. Public expenditure applied selectively in order to induce more employment through any of a variety of ways of subsidising jobs, would not be a net addition to the public sector borrowing requirement. It would not, that is to say, increase the budget deficit further. Action of that kind could be designed to contribute, at one and the same time, to remedying the structural causes of unemployment as well as bringing about a revival of sufficient total demand. What is more, such a strategy is effectively anti-inflationary. People who are got back to work will consume more (but not, as our figures suggest, much more) than when unemployed. Yet, unlike during the period of joblessness, when consumption continued without any output, with re-employment would come additional goods and services (as well as the financial gains to the Exchequer already identified) helping to prevent price increases.

Possible direction of policy

Even the most optimistic observer of the economic scene in the Western industrial countries is unlikely to predict a return to the mid-1960s level of unemplomeht during the remainder of this decade. If, in the event, the situation turns out to be otherwise, so much the better. But, realistically, the probability is that recovery will be slow. Moreover, it is certain from past experience that during the first phase of the upswing, employment will rise more slowly than output - and unemployment will go on increasing for some time even after there is an upturn of production.

Beyond that, it is very probable that even at the point when the emergent recovery has reached its peak, the level of

unemployment, though less than in 1975 and 1976, will remain higher than in earlier periods of comparable economic activity. If these views about the pattern of the future seem persuasive, it would be rational for governments to give serious consideration to alternative methods of providing income to those who are out of work than through unemployment benefits. The argument of this paper suggests that public expenditure currently put to income maintenance for the unemployed supplemented in a substantial way by additional public funds could be employed to keep people at work without nullifying the type of demand management policies currently favoured by governments.

Santosh Mukherjee.
22 April, 1976.

Table 1

Unemployment[1] in seven countries (000s, yearly average; and as per cent of the civilian labour force[2]) 1958 - 1975

Year	United Kingdom		France		Germany		Italy		Netherlands		Belgium		Denmark[4]	
	(000s)	(per cent)	(000s)	(per cent)	(000s)	(per cent)	(000s)	(per cent)	(000s)	(per cent)	(000s)	(per cent)	(000s)	(per cent)
1958	406	1.7	183	1.0	764	2.9	1320	6.2	100	2.5	120	3.3	65	3.2
1959	420	1.7	354	1.3	540	2.1	1117	5.3	80	2.0	142	4.0	43	2.1
1960	326	1.3	239	1.3	271	1.0	836	4.0	50	1.2	117	3.3	31	1.5
1961	287	1.2	203	1.1	181	0.7	710	3.4	36	0.9	89	2.5	24	1.2
1962	406	1.6	230	1.2	154	0.6	611	3.0	35	0.8	75	2.1	23	1.1
1963	496	2.0	273	1.4	186	0.7	504	2.5	35	0.8	62	1.7	32	1.5
1964	349	1.4	216	1.1	169	0.6	549	2.8	32	0.7	55	1.5	18	0.8
1965	299	1.2	269	1.4	147	0.6	714	3.7	36	0.8	63	1.7	16	0.7
1966	281	1.1	280	1.4	161	0.6	759	4.0	46	1.0	67	1.8	18	0.8
1967	503	2.0	365	1.8	459	1.8	679	3.5	90	2.0	92	2.5	22	1.0
1968	542	2.1	427	2.1	323	1.3	684	3.6	84	1.9	110	3.0	39	1.7
1969	518	2.0	340	1.7	179	0.7	655	3.4	66	1.4	88	2.3	31	1..
1970	555	2.2	356	1.8	149	0.6	609	3.2	56	1.2	69	1.9	24	1.0
1971	724	2.9	446	2.1	185	0.7	609	3.2	69	1.5	67	1.8	30	1.3
1972	806	3.2	492	2.4	246	0.9	697	3.7	115	2.5	84	2.2	30	1.3
1973	576	2.3	450	2.1	273	1.0	668	3.5	117	2.5	87	2.3	20	0.8
1974	543	2.1	501	2.3	582	2.2	560	2.9	143	3.0	94	2.4	45	1.8
1975[3]	942	3.7	906	4.2	1208	4.6	872	4.5	199	4.2	191	4.9	102	4.2

Notes and sources

(1) Data obtained from EEC statistical series (except where other source named). The EEC secures the statistics from Member Countries. In order to improve comparability, the EEC Statistical Office adjusts the data from each country. Consequently, national data as shown in the appropriate Member Country official publications may differ from the data given above.

Unemployment (absolute quantities): (for years 1958-1974) Eurostat General Statistics, 1-5, 1973; Eurostat General Statistics, 6-8, 1975; Eurostat General Statistics, 9, 1975. (For 1975) OECD Main Economic Indicators, October 1975.

Unemployment (per cent): (for years 1958 - 1972) OSCE, Statistique Sociales: Population et Emploi, 1968 - 1972; OSCE, 1972 Year Book of Social Statistics. (For years 1973-5) OECD Main Economic Indicators, October 1975. Eurostat General Statistics, 9, 1975.

(2) Standard definition recommended by OECD.

(3) Actual for first two quarters of 1975, estimated for rest of year (methods differ from country to country): OECD Main Economic Indicators, Oct. 1975.

(4) Insured unemployed (for all years): OECD Historical Statistics 1955 - 1971; OECD Main Economic Indicators, Oct. 1975; Eurostat General Statistics, 1-5, 1973; Eurostat General Statistics, 9, 1973.

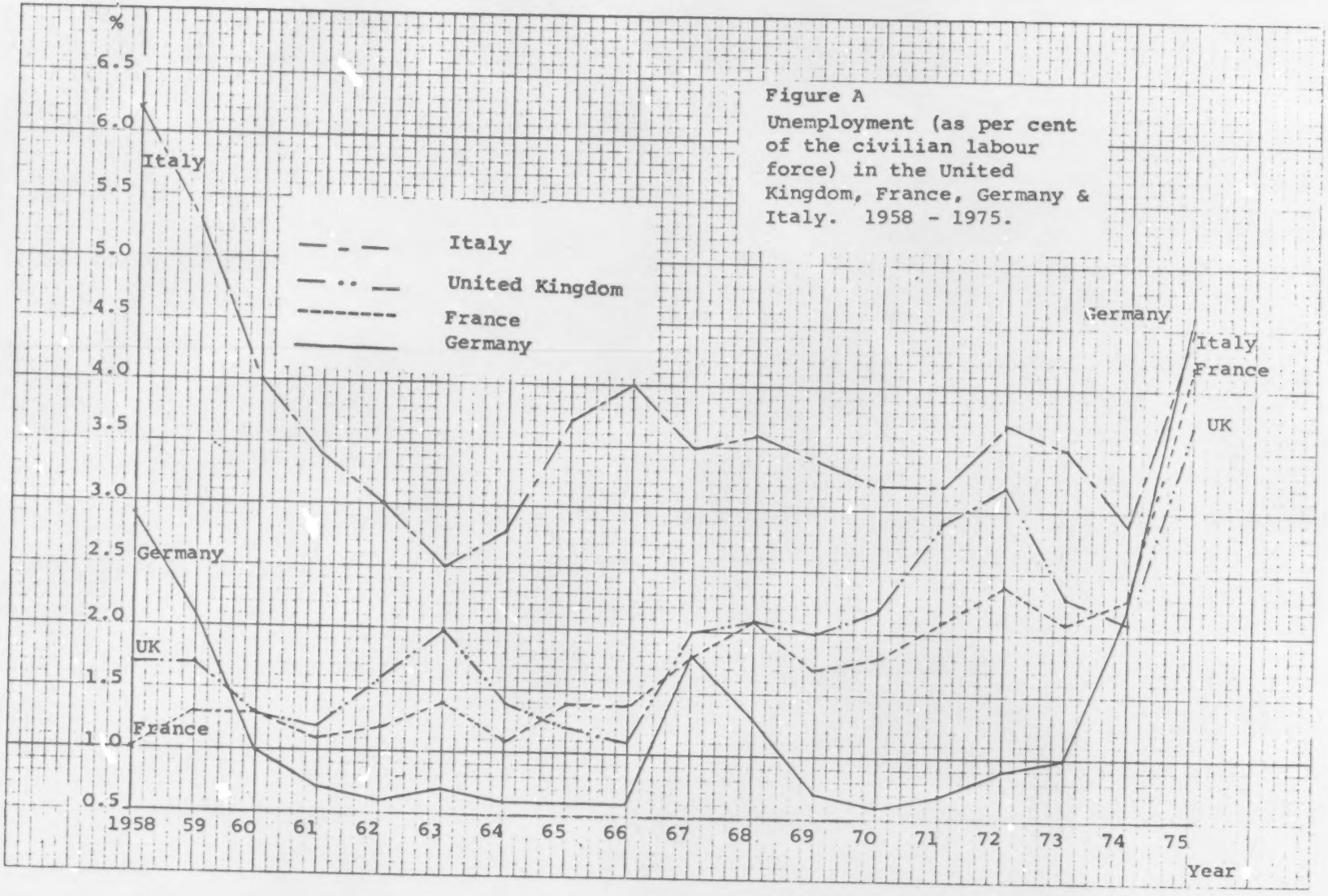

Figure A
Unemployment (as per cent of the civilian labour force) in the United Kingdom, France, Germany & Italy. 1958 - 1975.

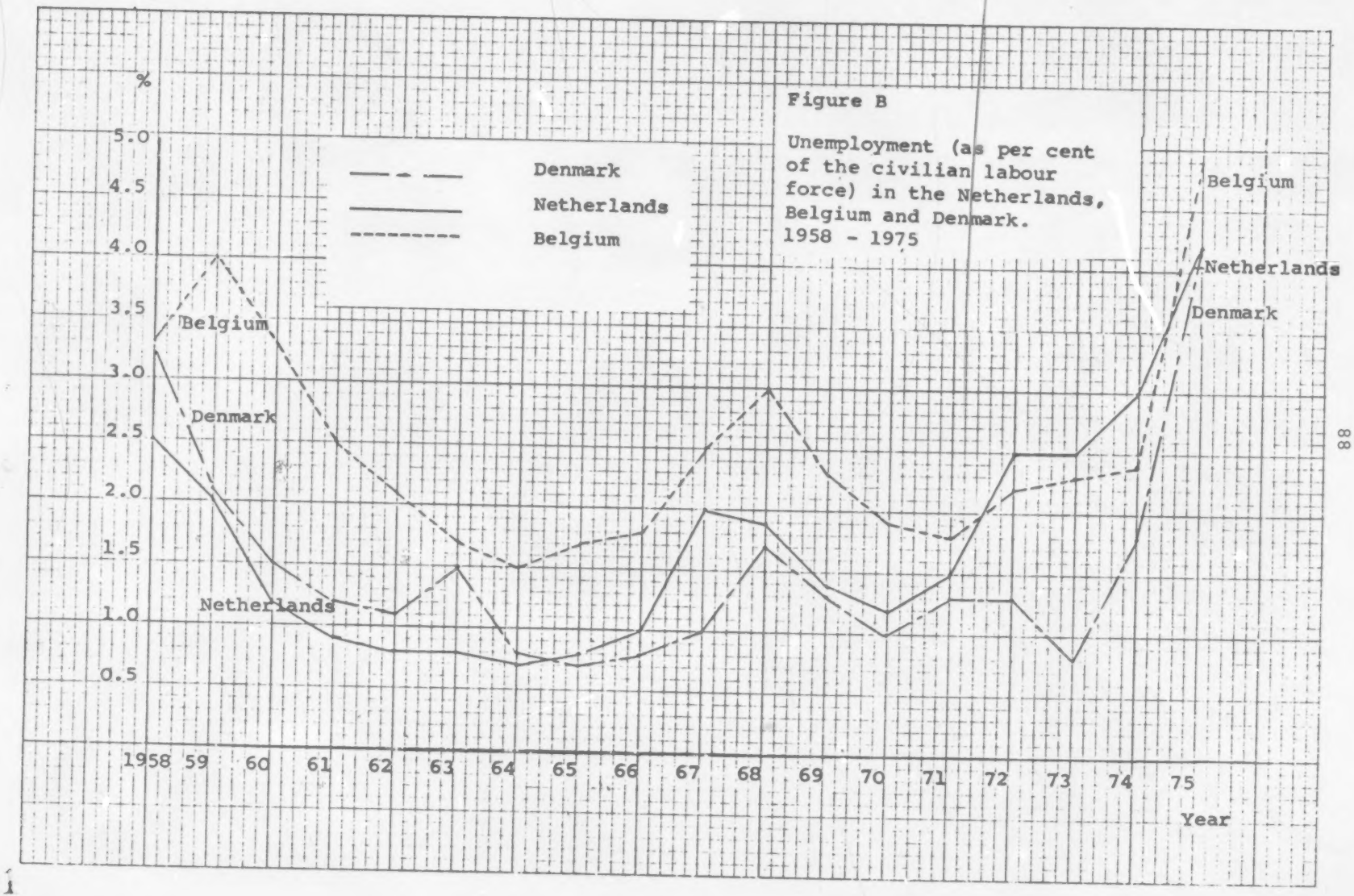

Figure B

Unemployment (as per cent of the civilian labour force) in the Netherlands, Belgium and Denmark. 1958 - 1975

ALTERNATIVES TO UNEMPLOYMENT: With Particular Reference to the Experiences of the Federal Republic of Germany in 1974-76

By Dr. Ursula Engelen-Kefer
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The persistent high level of unemployment in the western industralized countries during the economic crisis since 1974 consideraly increased the importance of strategies and instruments to combat loss of employment and income. In the forecast of the International Labor Office, the number of unemployed in the 23 industrialized western countries in 1976 will reach 18.5 million which leads to an unemployment rate of 5.8 percent, the highest level of unemployment since the World-Employment crisis in the beginning of the 1930's.

The Federal Republic of Germany with a low unemployment record during the 1960's and the beginning of the 1970's, when the average yearly unemployment rate was about 1 percent with the exception of the recession of 1966/67, is especially hard hit by the present employment crisis. In the spring of 1976 more than two million workers are effected by unemployment or underemployment:

- more than 1 million registered unemployed;
- about half a million workers with reduced hours of work;
- several hundred thousand of hidden unemployed, who left or did not enter the labor market because of lack of employment opportunities;
- several hundred thousand of foreign workers, who returned to their home countries because they lost employment.

Especially hard hit are as usual the disadvantaged labor market groups: female, older, handicapped, low qualified workers and, for the first time also, young and foreign workers. A new development has also been the high increase of unemployment in white collar occupations.

The challenge for employment policies is emphasized by taking into account the unfavorable perspectives for the future. According to forecasts from several sources[1/],

the future quantitative and qualitative growth pattern will not be sufficient to provide enough employment for absorbing:

- the present open and hidden unemployed and underemployed;
- the increasing number of school leavers due to demographic developments;
- the employment reductions and structural changes resulting from productivity increases in the industrial and service sectors, as well as the international division of labor.

As several international comparisons[2/] of policies and instruments for combating the present employment crisis show, highest priority has been given so far to defensive measures for reducing international migrations of workers and compensation for loss of income.

1. First of all most EEC countries stopped the recruitment of foreign workers from outside the common market. For the workers in the EEC countries there exists freedom of movement since 1968. Since there has been in recent years a considerable shift of international migrations from inside the EEC to an inflow of workers from other countries, the stop of foreign recruitment contributed to a considerable reduction of foreign workers. In the Federal Republic of Germany the number of foreign workers decreased from 2.6 million in the peak during autumn 1973 to 2.1 million in the beginning of 1976.

2. Most developed in all West European countries are measures to compensate for loss of income, which are extensively used in the present employment crisis. In this connection the following developments have to be mentioned:

- improvement of financial compensation in case of full unemployment, especially in the framework of the public unemployment insurance systems, by increasing the amount and the duration of payments, the groups of persons covered and reducing waiting time and other restrictive conditions;

- supplementing public systems of unemployment insurance by payments of employers provided for in collective agreements covering either all industries such as recently introduced in France (difference between public unemployment insurance and 90 percent of gross wages), in certain industry sectors as in Belgium (building, metal and textile industries) and, in the Federal Republic of Germany, in the chemical industry;

- supplementing public unemployment insurance systems by public welfare payments, in case of exhaustion of insurance payments because of the length of unemployment or other reasons, which are usually lower than unemployment insurance payments and also dependent on other income sources of the unemployed, but which can be provided without limitation as to time;

- payment of financial compensation from public means for a limited time period, if workers have to accept a loss of income in case of reemployment after unemployment;

- providing for redundancy payments by employers in case of mass dismissals and plant closures for a limited time period.

These payments for financial compensation of income losses in case of unemployment have in all countries considerably increased public expenditures[3/].

- In the Federal Republic of Germany, expenditures of the unemployment insurance system for one unemployed worker averages per year about 10,500DM. Adding the loss of contributions to the unemployment insurance system (at present 3 percent of total wages by each employer and worker), direct and indirect taxes and of contributions to sickness and old age insurance systems, the average costs for one unemployed worker amounts to about 17,000DM. The Federal Institute of Labor, which is responsible for the unemployment insurance system in the Federal Republic of Germany, had to pay unemployment insurance in 1975--with a total average number of 1,074 million unemployed of whom 810,000 fulfilled the conditions for unemployment

insurance payments--of about 8.6 billion DM.

- In the EEC countries public expenditures for unemployment insurance payments amounted in 1975 to 10.4 billion RE for 4.6 million unemployed or 2,260 RE per unemployed worker. Counting also the loss of direct and indirect taxes as well as social security payments, public expenditures per unemployed amounted to 3,500 RE per worker

Because of these high cost of unemployment in addition to the negative social effects for the unemployed workers and their families, there are attempts in all countries to use and develop alternative instruments to the payment of unemployment benefits.

Short-Work Benefits

Especially to be mentioned is the increased use of financial payments in case of reduced hours of work. This instrument has been extended especially in Italy and in the Federal Republic of Germany. The Labor Market Promotion Law (Arbeitsforderungsgesetz - AFG) which is the legal basis for the labor market policies of the Federal Institute for Labor, gives shortwork benefits (Kurzarbeitergeld), as part of the measures for securing and creating employment, priority to unemployment insurance payments. The provision of short-term benefits has the purpose of avoiding dismissals and unemployment of workers in case of a reduction of employment for a short time period. On the other side, the experienced workers shall be kept for the companies.

Short-work payments will be provided if during a continuing time period of at least four weeks not less than one third of all employed in the company experience a reduction of working time of more than 10 percent of the regular working time, and insured workers are effected by a respective loss of income. The amount of the short-work payments is based on regular wages, the regular hours of work and the level of unemployment insurance payments (at present 68 percent of net wages). Basically short-work payments can be provided for a time period of six months but exceptionally can be extended to 24 months. This possibility for extending the time period of short work payments has been used in the present employment crisis.

In 1975 there was an average number of 773,312 workers getting benefits for reduced hours of work. It can be assumed that the extensive use of the instrument of short-work payments avoided a further increase of the number of unemployed. According to analyses of the research institute of the Federal Institute for Labor[4/], the average reduction of working time for one short-term worker amounts to one third of his regular working time. From this it follows theoretically that the addition of three short-term workers reduces the number of unemployed by one. Thus it can be assumed that with an average number of short-term workers in the Federal Republic of Germany of 773,312 in 1975, an increase of the number of unemployed by about 224,000 was avoided.

The public expenditures for short-work benefits would be lower than the alternative cost for unemployment insurance payments.

Even if such a favorable substitution of unemployment by short-term work will never be reached in practice, the instrument of short-work payment has considerable advantages to unemployment: the affected workers can continue to work in their company and job even if it is only for a reduced time period and some loss of income despite the benefits. It prevents them from being unemployed, having to look for a new job, having to change employer, occupation or residence, experiencing dequalification or loss of income in a new job, having to take part in retraining. The employer can bridge the time of short employment reductions, thereby avoiding the costs of plant close downs, dismissals, starting production again, recruiting and training new workers.

As experience in the Federal Republic of Germany shows there is, however, the danger of abusing public benefits for reduced hours of work by employers who tend to intensify work and increase productivity. The result has been that workers produced in shorter working hours not much less than in the regular working time, but got paid only partly by the employer because they worked less hours. The rest of the wage bill had to be paid by the public unemployment insurance system with short-work benefits. This intensification of work will without doubt have negative effects on the security and health of the workers. It is therefore a considerable obligation for the representatives of the workers in the companies (Betriebsräte) to prevent those abuses.

It should be quite clear that this instrument of short-work payments can only be used in order to bridge a reduction of employment for a short time period. Therefore in the Federal Republic of Germany it is principally limited to six months, even if the time period has been extended in the present employment crisis, because of its long duration. If the reduction of employment is of a long-term and structural nature, the possibility of keeping workers on a reduced working schedule for a very limited time period will hardly prevent dismissals and plant closures as has been experienced in the past in the declining industries - especially coal, textile, leather and shoe industries. As experience in the Federal Republic of Germany shows, the increase of short-term work during the present employment crisis has been extensively used in those industries which are mostly effected by cyclical employment changes. During the economic recovery since the beginning of this year, short-term work has been reduced considerably. These developments are shown in the following tables.

The instrument of short-work benefits can therefore be only part of a comprehensive employment strategy to combat the present employment crisis, where cyclical and structural imbalances can hardly be separated.

Alternatives to Unemployment and Underemployment

In this respect the following considerations have to be taken into account: The total employment level is the result of the development of the gross national product, productivity, the number of workers and working time. Strategies to reduce unemployment and underemployment therefore have principally to be geared to:

- increase of global economic growth;
- selective increase of production in economic sectors with lower productivity increases and therefore more employment opportunities;
- the reduction of the number of workers or working time.

As has already been mentioned there are serious doubts if global economic growth in the next years will be sufficient to provide enough employment opportunities

Table 1. NUMBER OF SHORT-TERM WORKERS (KURZARBEITER) IN THE FRG

Middle of the Month	Number of Short-Term Workers
January 75	900,552
February 75	956,514
March 75	813,390
April 75	899,601
May 75	921,791
June 75	804,376
July 75	649,315
August 75	541,359
September 75	638,571
October 75	716,622
November 75	689,446
December 75	748,468
January 76	743,313
February 76	493,100
March 76	500,600
April 76	355,500

Table 2. NUMBER OF SHORT-TERM WORKERS AMONG INDUSTRY GROUPS IN FEBRUARY 1975 IN THE FRG

Industry Groups	Number of Short-Term Workers
Mining	203
Chemical	34,834
Plastics	36,471
Stone	14,375
Ceramics, Glass	38,277
Metal Production	20,675
Metal Processing	39,929
Steel, Light Metal	12,232
Machine	101,369
Automobile	183,476
Electrotechnical	167,827
Mechanics, Optics, Watches	28,897
Iron and Metal Products	53,702
Wood	36,477
Paper	20,588
Leather	1,469
Shoe	5,108
Textile	40,594
Clothing	9,394
Food	2,216
Building	55,003
Others	53,398
TOTAL	956,514

under the perspectives of the high level of unemployment and underemployment, the demographic increase of school leavers, productivity increases and changes in the international division of labor in favor of the less developed countries. The economic growth pattern would therefore have to be changed to less capital intensive sectors - for instance public infrastructure - which would not only provide more job opportunities but also fulfill basic needs of the population. Therefore the instruments of sectorial and regional structural policies as well as special labor market programs would have to be improved and enlarged. In this connection the instrument of work creation programs in the public and private sector, which has been increased during the present employment crisis in all industrialized countries, would also have to be extended as well as coordinated with cyclical and structural economic policies.

If the promotion of such a more qualitative growth pattern would not be sufficient to provide enough employment opportunities, instruments to reduce time worked are under consideration. It has, however, to be taken into account that those measures cannot increase job opportunities but only contribute to dividing the available work more equally among the work force. Independent of these employment considerations, several of the presently discussed instruments are especially needed under educational or social aspects. Therefore using those instruments for combating unemployment and underemployment could be justified.

In this respect instruments to reduce the number of workers and the working time should be discussed separately.

Reducing the Number of Workers

In order to reduce the number of workers the following instruments have to be mentioned:

1. High priority should be given to the prolongation of the general education system for one year to 10 years and the introduction of one obligatory year for the preparation of vocational training (Berufsgrundbildungsjahr). This could reduce the number of employees by about 150,000 per year. In

addition this improvement of education and vocational training would further contribute to a reduction of unemployment because employment chances are much better for the more qualified youth. In the present employment crisis unemployment has been especially high for youth without vocational training. About one fifth of all youth under 18 years of age are still unskilled workers.

2. Underemployment and social considerations favor greater flexibility of retirement age, which starts at present with 63 years of age, to 62 years. As experience shows, the reduction of retirement age by one year can decrease the work force by about 100,000. This seems preferable to another proposal, which is at present discussed at EEC level[5]: the retirement of older workers who have been unemployed for at least 12 months. This would in fact force older unemployed workers out of the labor market without giving them a choice as could be provided by a more flexible retirement age.

3. Another possibility which has already been used to some extent is the reduction of the number of foreign workers. It has been mentioned already, that the stop of foreign recruitment contributed to the reduction of foreign workers in the Federal Republic of Germany by about half a million to 2.1 million. Taking into account the freedom of movement in the EEC countries as well as the number of those foreign workers from countries outside the EEC, who already have permanent permits to stay in West Germany, the number of foreign workers could not be reduced below 1.5 to 1.7 million. In addition foreign workers largely are employed in jobs which are hardly alternative but complementary to those of domestic workers.

4. A reduction of the number of workers could also be reached by an increase of enrollments in training and retraining programs. With the exception of Sweden hardly any country so far uses these labor market programs anticyclically.

5. The introduction of paid educational leave for two weeks per year could lead to a reduction of the work force of about 100,000 if 10 percent of the workers would take advantage of it.

Reducing Working Time

In addition to those possibilities for a reduction of the number of workers there are several ways and means to reduce working time:

- Especially important in the present employment crisis is the reduction of overtime work. As experience shows employers tend to prefer overtime work to the recruitment of unemployed even in times of high unemployment. In the Federal Republic of Germany there was for the average worker in industry two hours of overtime work per week in July 1975. A reduction of this overtime work in half would theoretically provide employment opportunities for 144,000 workers.

- A reduction of unemployment could also result by increasing the supply of part-time work. In November 1975 there were 163,900 unemployed in the Federal Republic of Germany - mostly women - who looked for part-time work. They could have been employed if 80,000 full-time jobs would have been split into half.

- Other possibilities for sharing the available work more equally among the workers could be achieved by the following ways and means, which are also required under the considerations of humanizing working conditions - especially: increase of paid vacations; reduction of weekly, monthly and yearly working time; increase of recreation time; more paid vacation for heavy work; reduction of shifts.

But these instruments for reducing working time, leading to the possible increase of job opportunities and reduction of unemployment, seem dubious. It has already been mentioned in connection with short term work that employers tend to intensify work and productivity if there is a reduction of working time before employing additional workers. In addition it has to be taken into account that there are structural differences between job areas where a reduction of working time would make the recruitment of unemployed possible, and occupational as well as regional preferences of those looking for work.

In any case those instruments for sharing the available work more equally among the work force can never be seen as a substitute for a full employment policy which puts all emphasis on providing jobs in the needed quantity, quality, as well as in its regional, sectorial and occupational distribution.

Footnote References

1/ See especially, Institut fur Arbeitsmarkt- und Berufsforschung der Bundesanstalt für Arbeit, Wachstum und Arbeitsmarkt, Angebot und Bedarf an Arbeitskräften bis 1990, Nürnberg, Quintessenzen aus der Arbeitsmarkt und Berufsforschung, Heft 1, 1975.

2/ See U. Engelen-Kefer, MaBnahmen zur Bekämpfung der Arbeitslosigkeit im Internationalen Vergleich, in: WSI-Mitteilungen, Heft 2, 1976, pp. 76-84.

3/ See H. Seifert, Alternative Instrumente zur Reduzierung der Arbeitslosigkeit, in: WSI-Mitteilungen, Heft 2, 1976, pp. 67-76.

4/ See L. Reyher, Beschäftigungspolitische Alternativen zu hoher Arbeitslosigkeit, in: WSI-Mitteilungen, Heft 2, 1975.

5/ Kommission der Europäischen Gemeinschaften, Eine Gemeinschaftsstrategie für Vollbeschäftigung und Stabilität, Brüssel, 31. März 1976.

FRENCH EMPLOYMENT POLICY DURING 1974-1976*

by

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INTRODUCTION

French employment policy in this period appears as a failure or, more justly, half a failure. In June 1974 the Prime Minister defined the government's objectives before the National Assembly: to reinforce the social protection of workers exposed to the hazards of the recession and at all events to guarantee them an income. At the same moment, the Minister of Labor affirmed that too great an increase in unemployment would be avoided. From then to the decisions of the government in March 1976, one series of measures followed another. But to date the measures taken have proved insufficient for the government's aims.

The intent of this survey is to assess and to explain more precisely the causes of this mixed balance of half successes and failures.

I. Employment Policy Before the Crisis

In France, "It is really possible to speak of employment policy only from 1967," we are told by the academic Aude Benoit, entrusted by French Documentation to define the major instruments of the country's employment policy ("Notes and Documentary Studies," May 27, 1974). Yet earlier developments need to be recalled, such as the landmark agreement in 1958 between the employers and trade unions creating UNEDIC, in the organized sectors, for payment of wage-related benefits to the unemployed, supplementary to the public allowances given the unemployed.

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* Original text: French.

Indeed in 1967 there was, as remarked by Aude Benoit, "a turn in the process of treating labor problems," with government an active promoter in creating a comprehensive and logical manpower system. Placement services for job seekers were radically reorganized with new men and modern premises, by creation of the National Employment Agency (ANPE). Unemployment assistance was improved. Allowances paid by the National Employment Fund (FNE) were designed to make it easier for the unemployed to change jobs. The Act of 13 July 1967 provided for regulations and information requirements relating to prospective layoffs and for payment of compulsory dismissal allowances, as French industry was undergoing fundamental and rapid change.

From 1967 to the world economic crisis a series of agreements between the trade unions and the employers' Conseil National du Patronat Francais (CNPF), as well as new government acts, followed upon and complemented one another. In the aftermath of the events of May 1968, the initial national agreement of 10 February 1969 provided for the creation of jointly administered Employment Committees at industry and regional levels, for employers and trade unions to grapple with problems of economic change. The agreement sets out joint production committee procedures for consultation, for notice prior to layoffs, for orderly assignment of workers to new jobs.

On 9th July 1970, a new agreement created a training system both to satisfy the needs of the firms and to entitle workers to training so that they could expect promotions in accordance with their hopes; this agreement was confirmed and extended to every firm by the Act of 16 July 1971. In February 1972, a new stage opened with an agreement for grants to dismissed older workers. In fact this agreement created a sort of pre-pension--available from 58--for wage-earners who suffer layoffs; with unemployment allowances and grants allowed by the UNEDIC, they receive (up to age 65, the normal date of retirement) subsidies reaching 70 percent of their previous earnings.

Completing actions taken prior to the crisis, the Act of July 1973 relating to collective layoffs, imposed further delays on employers before dismissals of wage earners.

New public institutions were added to those created by employers and trade unions--regional committees for professional training and social promotion in employment and, at the national level, the Interministerial Labor Market Committee and the Interministerial Committee for Professional Training and Social Promotion among others.

Thus it would appear that from 1967 to 1973 France had created a rather logical scheme for dealing with problems of the labor market. A good number of institutions were entrusted with responsibility to look after the employment situation, to coordinate various actions, to alert the political authorities. Theoretically no one should be taken by surprise. In case of storm everything was set out so that government and social partners have the possibility for concertation and decision.

Yet, as we shall see, when the economic crisis burst out in every country, these elaborate French institutional arrangements proved not to work very well, for reasons of administrative stiffness perhaps or for lack of effective concertation between trade unions and employers.

II. Employment Policies from 1974 to 1976

But let us come to the early days of the economic crisis which struck France and threatened jobs at the very time the new President of the Republic promised an advanced liberal society and improved assistance for wage earners in case of unemployment.

From 1974 to 1976, three periods may be distinguished in the President's and the government's policy, varying from defensive measures to more offensive economic intervention.

1. During the initial, defensive period, the Prime Minister outlined his economic and social policy in his June 5, 1974, general policy statement before the National Assembly. In the area of employment, the emphasis was twofold: reinforcing financial aid to workers hurt by the economy and guaranteeing them a decent income under any circumstances. In his letter of June 19, 1974, Jacques Chirac asked both unions and employers to agree to his policy: "The first objective is to avoid sudden mass layoffs without any attempt at reassignment. Toward this end, the government urges employer associations and unions to improve the provisions of the Employment Security Agreement of February 10, 1969. Such revision should particularly address the question of the information which employers must give to joint production committees, as well as the required periods of notice preceding large layoffs... A bill reforming the process of mass layoffs will then be submitted to Parliament." The government further urged an increase in unemployment allowances.

The response may be seen in the agreement of the social partners of October 31 providing for an Interim Supplementary Allowance (ASA) amounting to 90 percent of wage loss for workers dismissed for economic reasons of a cyclical or structural character and, in the November 2 agreement, regulating collective dismissals and reinforcing joint production committees' powers and wage earners' rights.

2. Signaling the beginning of a partially offensive period the Prime Minister, in his speech to the National Assembly debating the direction of the 7th Plan up to 1980, emphasized a number of medium-term measures: a lowering of the retirement age, upgrading of manual labor, and a modification of the education system. At about the same time in the Autumn of 1975, in response to unemployment pressures, the government took more offensive economic measures to make public employment agencies more responsive and to stimulate job creation through assistance to enterprises.

3. A more offensive period may be seen to have commenced in March 1976 when the bonus for the creation of jobs and agreements for employment and training were modified and extended, and administrative structures made more flexible, as special difficulties in the labor market in the incipient recovery became more transparent.

What then, in the current situation, are the results of these conjunctural policies, which have thoroughly altered wage-earners' rights, particularly with respect to collective dismissals, and, consequently, for structural change and mobility in the labor market.

Our brief survey discloses some positive and negative elements. The little improvement in the Spring of 1976 in unemployment, which had indeed reached a million at the end of 1975, was not sufficient to rub out the anxiety caused by the expectation of a new rise in the Autumn of 1976.

In what follows we propose to fill in our sketchy survey and offer some assessment of the measures taken, under three headings--(A) Rather Positive Measures, (B) Relatively Negative Measures, and (C) More Fundamental Deficiencies.

(A) Rather Positive Measures

1. Regulations in case of collective dismissals

Two problems were important for the new President of the Republic and his government in facing the economic crisis. First to demonstrate, whatever the economic current, that the recent political majority wants to do the social thing in strengthening aid to workers and creating new rights. Secondly, confronted by an economic crisis of extraordinary dimensions, to prevent--so far as possible--too large an increase in unemployment by restricting collective dismissals.

Consequently, a method already used by MM. Pompidou and Chaban Dalmas, dealing with both strategies of concertation and authority, was

adopted. The social partners were invited to negotiate agreements while, at the same moment, they were informed that in any case compulsory regulations would be laid down by law. As a result the Agreement of November 21, 1974, was negotiated and the Act of January 3, 1975, voted.

By the November 1974 Agreement regional committees were created with equal representation of workers and employers to try to find solutions for particular difficulties of reallocation of workers facing dismissals to new jobs. Collective dismissals were to be postponed for six months to allow time for provision of necessary information and for consultation via works' committees or the good offices of the labor inspectors.

The January 1975 Act validated these understandings and set forth implementing regulations. The employers' notification obligations required a written report setting out the financial, economic and technical causes for the impending dismissals and, also, an affirmative action program by occupational categories for new jobs. The Labor Inspector must license any--even individual--economic layoffs. Legal sanctions may be imposed on employers who do not obey the Act's various stipulations; grants ranging from 1,000 to 3,000F, possibly damages as well, may have to be paid to wage earners.

According to the public authorities the Act represents a considerable advance in employment security. It avoids precipitate layoffs, provides procedures for scheduling new jobs within or outside establishments, and involves the participation of workers in essential matters. Yet it is said to promote employment mobility as a continuing prerequisite for economic development and social progress.

Our view is that in fact such a reform does contribute to social progress. Further, its implementation has made it possible to avoid a good number of dismissals. But we don't agree with the

Prime Minister's view that except for these measures, together with others to be mentioned, that unemployment would have exceeded the 2 million mark. From early 1975 the government's mistake was to fail to complement this defensive measure with more affirmative ones. Financial subsidies should have been provided, as in Sweden, for stockpiling both skilled workers and manufacturers' inventories and for further training of employed personnel. Thus reductions in working hours could have been avoided as well as the retour en arriere decided upon by the government in the Spring of 1976. (See below.)

At the first signs of economic recovery, when public authorities hoped that businesses would resume hiring, there developed among employers an active campaign not only against the January 1975 law but also against the agreement which they themselves had signed. "The law," they said, "has not preserved 'the indispensable mobility of employment'"; "we can no longer layoff"; "the law has locked us in: if we hire and later find our economic growth insufficient, forcing us to layoff workers, we won't be able to. Consequently, we don't want to hire." And some declared, "If the 1975 law didn't exist, there would be 100,000 to 200,000 workers hired." The strikes and occupation of plants in case of closures undoubtedly very much influenced this negative attitude of employers.

But instead of reinforcing the Act of 1975 by more active measures, the government in March 1976 gave way to the pressures of employers and, in an official statement, approved a system of short-term labor contracts. Wage earners hired under this formula will not have the protection of the 1975 Act. From now on, with this sort of contract (already existing but often condemned by the courts), the employer can hire in good conscience--he will not be inhibited in dismissing these workers if necessary.

In fact, we are facing an indirect alteration of the law although the President of the Conseil National du Patronat Francais (CNPF) states that

this is but a temporary measure: that the employers' objective is to shift these short-term contracts to unlimited ones. "The short term contract," he declared in March 1976, "is the gate to an unlimited one." Nice formula, generous, and no doubt honest, but difficult to realize! After the social advance of the 1975 Act, the 1976 permissions represented a social backsliding. A bad device had been adopted: public powers provided a means not to apply the law. Of course, the law is still available--that is why we place this part of new French labor policy in the semi-success rather than the relatively negative category.

2. Reinforcement of Subsidies for Reduced Hours of Work

This was meant to be a second positive policy initiative. Prior to the Act of January 3, 1975, indemnification payments for involuntary short working hours came from state assistance and additionally from a Fund administered jointly by the employers and unions. But the benefits were not proportional to income: high-wage workers fared less well, relatively, than low-wage workers. The January Act, the agreement of June 1975 of the social partners, and the decrees in the summer of 1975, made benefit payments for reduced hours of work proportional to wages--subject to a maximum cutoff. As of February 1976 the minimum benefit was equal to 7.70F per hour and a maximum (including the public assistance component) of 50 percent of previous wage.

The State contribution rises in relation to the number of unemployed hours per year--from 2.5F up to 4.5F per hour in the range between 160 to 420 unemployed hours in a year. The additional grant which is contributed by firms so that workers receive 50 percent of previous earnings is repaid to companies by the National Employment Fund, where enterprises have concluded agreements with the FNE.

The purpose of such regulations was, of course, to induce companies to reduce hours of work rather than to dismiss workers. What was the result? Indemnified days advanced from 122,000 in December 1973 to 1,742,300 in December 1974 and maintained at

1,601,500 in December 1975. The State contribution rose from 13 million F in 1973 to 220 million F in 1975. While these measures, intended to check layoffs, did not have the influence the Prime Minister expected, they nonetheless had a real impact. According to a report on employment by the Plan Committee, "Action to shorten working time had considerable effect, and it can be estimated that, in 1975, 40,000 layoffs were thus avoided."

This number, of course, is quite substantial. But keeping workers on payrolls explains the small influence of recovery to date upon the labor market: before hiring anew employers first had to reduce the numbers working short-time.

3. Pre-retirement Benefits for the Older Unemployed

The number of older unemployed receiving pre-retirement benefits under the employer-union agreement of March 1972 has steadily increased since its inception. These older workers are entitled to receive 70 percent of their previous wage until they are at age of retirement--usually they receive 55 to 60 percent. And the enterprises have the opportunity to part with some of their older workers without having to layoff other workers. Beginning with 23,186 pre-retirements in 1972, the numbers increased to 40,924 in 1973, to 54,924 in 1974 and 76,837 in 1975. Thus in 1975, about 22,000 additional older workers were retired under the terms of the 1972 agreement, and not counted as unemployed, presumably saving jobs for roughly an equivalent number of other adult workers.

4. Merits and Inequalities of the 1974 "Interim Supplementary Allowance"

This scheme (ASA) created by the agreement of October 1974 by the organized social partners, under some pressure by the public powers, is more "revolutionary." The President of the Republic promised during his electoral campaign to pay subsidies up to 100 percent of previous incomes to wage earners affected by layoffs. The agreement, in fact, provided for benefits up to 90 percent of gross

wages (about 100 percent of net wages) to wage earners whose jobs were eliminated for economic reasons, if employed in enterprises covered by this private agreement. Subject to some fine points, workers were entitled to these extraordinary benefits for one year; their entitlement to this supplementary benefit is subject to revocation if, in quarterly reviews, it is found that they refuse a suitable new job or training.

Thus dismissals are not avoided under this special scheme, but on the contrary, are made easier. Off to a slow start, the recipients dismissed for economic reasons rose from 11,213 in February 1975 to 69,000 in June and reached 108,122 in December 1975.

But this system which placed France high among industrial countries showing special concern for manpower problems in the recession, is subject to two difficulties. The first is the inherent injustice of the formula. The more well-off socio-professional categories stand to gain the most from this supplemental scheme. Indeed, out of those receiving benefits, the ratio drops from 47 percent in the case of staff employees and 43 percent for technical workers and foremen to 36 percent for skilled workers, 24 percent for the unskilled, and 19 percent for unspecialized workers.

The injustice is all the greater when compounded by the unfair system of normal assistance, since neither young people seeking a first job nor many women can receive unemployment benefits: 39.4 percent of men seeking employment receive benefits, 30.6 percent of women and only 19.5 percent of those under 25. At a time when there were a million unemployed in France, it was estimated that barely 600,000 of these received either ASA (100,000), public assistance alone, the UNEDIC allowance, or the latter two allowances. And it should be noted that among these recipients, some enjoy benefits equal to 10 or 20 percent of their former salary, others are compensated up to 35, 40, 70 (pre-retirement) or 90 percent in the case of the

Interim Supplementary Allowance (ASA). "It is a real injustice," concluded the Employment Committee for the Plan; the supplementary assistance scheme "reinforces, more than it diminishes, the inequalities of unemployment."

Other deficiencies relate to time limits and differential treatment by age after the first year of the supplement. Employers have often criticized these but have not put forward positive proposals. It can be wondered if it would not have been bolder, if less popular, to have provided in the October 1974 agreement for wage replacement of less than 90 percent but for a longer period. Also it can be wondered if it would not have been useful and fair to provide a capital grant to those successfully completing a period of training or a sliding allowance for taking a job paying less than the one held before. A good many among the unemployed have told us that, after being dismissed and receiving the special ASA allowance, they stopped seeking a job for a certain time or they refused jobs paying less compensation. Thus one must view the merits of the Interim Supplementary Allowance scheme with a certain relativism.

5. Subsidies to Firms to Raise Production and Employment

A last set of initiatives deserves to be mentioned amongst the relatively positive prospects in our survey. In addition to the payment of special allowances to the aged and to families to maintain consumption, the government granted subsidies to public and private sector enterprises, including the buildings and public works branches, and for improving the environment, to increase production and jobs. On the whole more than 30 billion Francs have been put into the economic circuit.

In September 1975 the government decided upon a plan for public investment at national and local levels which resulted in an outstanding increase in available resources and orders by the end of 1975.

Public works in January 1976 were more than 50 percent above the level in January 1975. Nonetheless this was sufficient at best to hold construction employment to small declines over the year. Enterprises foresaw further declines in their employment in the absence of new and larger, regular or special, budgetary expenditures for collective facilities.

(B) Relatively Negative Measures

To the rather positive measures we have cited, other initiatives did not have any substantial results--viz., incentive subsidies for assistance to training and for the training-employment agreements proferred by the government in June 1975. By that time the public authorities had decided to move from a defensive to a more affirmative employment policy. They were no longer satisfied with assisting the unemployed and restricting dismissals. The intent now was to provide subsidies for job creation to arrest the decline in job vacancies.

1. The Incentive Bonus for Job Creation

This provided for a payment of 300 to 500F to employers, for each youth or for each person registered as unemployed for six months or more, if hired between June 15 and December 1, 1975. Out of a potential of 600,000 or more, it was hoped realistically that 100,000 might thus be brought into employment at an outlay of 300 million Francs in 1975. Unfortunately the formula seemingly proved a failure although extended at the end of 1975 through March 1976. To date the results have proved poor.

2. Public Subsidies for Training-Employment Contracts

Adopted at about the same time for the same aim, this scheme was intended to induce enterprises to hire, especially, youth with insufficient or inadequate training. Employers were offered a subsidy

equal to 100 percent of the minimum wage (SMIC) during training periods and 30 percent of SMIC during work periods. At the Matignon it was expected that 100,000 youth should profit from this scheme at an expense of 800 million francs to the State.

But again the failure was plain, and the scheme was extended through March 1976. The Minister of Labor had thought in June 1975 that 300,000 youth should benefit from the two measures. At the time employers approved the initiatives but some groups among them stressed the fragility of the scheme and shortcomings of the six month limitation. At Matignon odds were laid on employers hiring under short-term contracts in anticipation of a recovery that would be underway in six months.

By September 1975 official expectations were reduced to 50,000 or 80,000 to be hired under the Incentive Bonus and another 80,000 under the Training-Employment Contracts. In the end the bets were lost: The employers were not confident of recovery and the recovery there was had little effect on employment. On the whole, less than 60,000 youth and unemployed rather than 300,000 had profited from the two schemes: 8,400 under Training-Employment Contracts and 48,000 under the Incentive Bonus.

How can one explain this failure? Several reasons can be given: publication of application orders was late and information given to employers was insufficient. But more particularly employers did not want to cooperate, feeling that the program was too little too late. "What does a benefit of 'x' francs for six months mean," asked company managers, "when an immediate hire can only be decided on if we have assurances beyond six months. What we wanted then was a guarantee for the future and not assistance limited to six months." Doomed to navigate without radar like the public authorities, business leaders did not also want to hire "without radar."

The government realized a little too late that these two types of aid should be more important and not so temporary. In March 1976 the Incentive Bonus was extended but only in the artisan sector and the

formula of the Employment-Training Contracts was improved and made permanent.

All these initiatives mentioned so far from 1974 to 1976 had an evident but limited current impact. Unemployment in the spring of 1976 was still very high and was expected to rise again in the autumn. Among other difficulties, youth qualifications are not at all adjusted to employment demands. So far all the information, prevision, and concertation structures have not worked very well.

In this situation it is important to set up a balance-sheet of the errors, deficiencies, and the underlying causes of this less than satisfying employment situation.

(C) More Fundamental Deficiencies

1. Malfunctioning Institutional Mechanisms

France, during the ten years preceding the economic crisis, as mentioned before, developed a vast panoply of jointly administered employer-worker institutions and national employment committees. The first ones, created by agreements between trade unions and employers, did not have the effect expected. According to an inquiry made in 1973 by the Employment Commission for the 7th Plan, the outcome was not very satisfying: "In numerous cases the joint commissions either did not meet or played only a formal role; only in exceptional cases do they perceive problems affecting employment at a point when it is still possible to intervene. Certain labor groups had wished to see them play the role of an appeal mechanism in the process of layoffs for economic reasons: this solution was not adopted."

The Plan Committee continues, "It is not so much their existence which is questioned as their methods of operation which should be improved." We would add that above all business leaders and managers of multinationals should accept to attend and act fairly and above board.

As to the various Interministerial Committees and administrative institutions, they have been entangled in bureaucratic regulations and delays. Why the Ministry of Labor created the Delegation for Employment in the current economic crisis is revealing: "We are setting in motion," it was observed in an official

document of the General Delegation for Information, "a redeployment of the administrative apparatus in order to provide the means for a more dynamic and more adaptive intervention in employment policy."

Isn't this a recognition of institutional maladjustment and lack of dynamism? Paradoxically, at the beginning of 1976 during a meeting of all prefects, the government announced with great fanfare that various subsidies would be reviewed by the large agency directors themselves. Doesn't this personal presence of high-level officials to reduce delays emphasize the relative failure of "deconcentration" and of the delegation of powers? A cleaning out of administrative services and especially a new outlook based on bold reforms have proved to be absolutely necessary.

2. A Malthusian Overtime Policy

Another difficulty explains the reticence of employers to hire. By reason of the maximum ceiling on wages in computing social security taxes, it is indeed more expensive for an employer to hire a wage earner than to pay overtime to those who already work in the firm; and with respect to skilled workers in short supply, managers demand additional hours of work from them. Again, bolder measures are needed to penalize overtime and reduce hours of work to permit the rehiring of the unemployed.

3. Inadequacies of Mobility Subsidies

The National Employment Fund had been conceived originally to facilitate necessary adjustments on the French labor market. It was particularly concerned with making the professional and geographic mobility of wage earners and youths easier by the payment of various benefits--removal grants, starting help, for temporary maintenance of two households, mobility bonuses for youth.

Now according to the Employment Commission for the 7th Plan, "It appears that a number of traditional assistance programs have met with relative failure" due to "the complexity of certain procedures,"

ignorance of the same, and insufficient sums of assistance, all of which "have discouraged workers with respect to certain assistance programs."

In 1974, only 3,215 removal grants and only 11,500 travel grants were taken up. Amalgamating these various schemes and increasing the assistance provided is indispensable, as decided in March 1976, in the case of the new mobility bonus for young people.

4. The too Limited Development of the National Employment Agency (ANPE)

The ANPE was, of course, very improved during the years preceding the recession. We have mentioned the modernization of premises and facilities, and notably its staff. Yet when the wave of the new dismissals was added to the flow of youth leaving school in July 1975, the ANPE did not have adequate means for its placement and guidance functions. When visiting the local agencies we found that the staff who would normally search for job openings had to stay in the office to receive the new job applicants. We also found that the counsellors were also insufficient in number and that there were long delays in appointment dates for interviews. In short the ANPE did not have the resources, in the crisis, for obtaining from the major enterprises the necessary information for the transparency and fluidity of the labor market, which was and still is its aim.

"It must be stated," noted the 7th Plan's Employment Commission, "that faced with these needs the public sector suffered both from lack of means and bad organization for the collection and dissemination of information." As for the ANPE, it "has only a theoretical monopoly on job placement... Its facilities, although strongly developed during the 6th Plan, were viewed in terms of an employment situation which had no relation to the present and to what was forecasted." While "Sweden has one public employment service employee for every 571 wage earners, the Federal Republic of Germany one for every 893, Great Britain one for every 1,915, the ANPE has only one for every 3,044." Again another negative indicator, the ANPE with its theoretical

monopoly has only 750 offices compared to 2,000 for the private "temporary manpower" offices.

5. Too Slow Improvement in Working Conditions

The rise of unemployment is also due to the insufficiencies of the policy for ameliorating the conditions of work. Before the recession France also suffered a significant amount of unemployment: structural in character, resulting from discrepancies in the demand for and the supply of labor. The economic crisis superimposed unemployment of a cyclical character. And in the moment of the first signs of recovery, the underlying structural unemployment persists which in part explains the small diminution in the number seeking jobs.

Quite clearly a not neglible number of the unemployed refuse to accept industrial jobs because they are unwilling to accept monotonous, dirty, hard or repetitive tasks. This rejection of manual work by part of the young had led too many to pursue general education without any vocational content. As a result they have few credentials when they appear on the labor market. On the other hand, employers for years have been little concerned about working conditions. Instead, taking account of French reticence for manual work, managers during the last 20 years have opted to use the underutilized labor reserves of the poor Mediterranean countries. It was more profitable to hire migrants than to invest in plant to improve working conditions, or to raise wages, in order to provide incentives for the French to engage in manual tasks or to work in factories.

Between 1968 and 1971 employers became conscious that they had reached an impasse. They shifted from declarations and reports for job enrichment to negotiations and legislative texts. But this turnabout took place too late and was too limited to have immediate consequences for employment. Much talk and ink have been wasted and few results realized. One must acknowledge that employers have pursued the matter on occasion during the crisis. The government too carried out studies on the subject and, on the direction of the President of the Republic and the State Secretary for the

Improvement of Manual Work, proposed reforms. Slowly these reforms are moving forward but still with little impact. At the same time the evolution of new techniques applied to production and management--data processing and what not--have led to a deterioration of working conditions in manufacturing and certain tertiary industries. These recent techniques seemingly tend to increase job parcelization and to replace physical strain by nervous stress.

6. The Limited Progress in Training Policy

The increase in employment in the recession and its maintenance at a high level at the outset of recovery is explicable in part by deficiencies in training policy.

Basic Education--The public authorities have not gained much from the long effort preceding the crisis to develop a new educational scheme better adjusted to individuals and to the economy. Considerable financial expenditures have been made to strengthen the educational infrastructure. Fundamental reforms have been carried out, their proliferation and entanglements creating a certain confusion. According to a preliminary report for the 7th Plan, "The problems of integrating young people into the labor market as they leave the educational system have been aggravated in the last few months by a greater disparity between the general level of basic education and the nature of available jobs." In 1975, out of 803,000 youth leaving school, 250,000 had no qualifications at all and hundreds of thousands have rushed into higher and general education with no professional future.

Uneven gains in further training--Vocational training of adults paid for by the State through the AFPA has progressed very decidedly: from 640 million F in 1973 to 920 million F in 1975. But the delays suffered by candidates in the completion of training--36 months, e.g., in a number of the skilled trades--is still very long.

Some years before the crisis France had put in place an advanced scheme entitling wage earners to training financed by a one percent levy on enterprises,

under the agreement of 5 July 1970 between employers and unions and the Act of 17 July 1971. Despite outlays of 8 billion Francs in 1975, three shortcomings may be mentioned. The scheme is less operative in small and medium-size firms than in large enterprises. Unskilled workers who have the most need benefit the least. Duration of training is too short and has been reduced from 74 hours per trainee in 1972, to 69 in 1973 and 62 in 1974. Further, employers have not grasped the opportunity to expand its scope during the recession; the State could have advanced the 1976 payments to double the outlays in 1975. Sweden financed inventory of commodities; France should have financed the stockpiling of skills.

CONCLUSION

In conclusion it can be affirmed that France, before and during the recession, sought to pursue an active employment policy. Significant progress has been made. Certain instruments of this policy, it is said, "have developed in spectacular fashion." But some measures were failures, or insufficient, others were unfair in their application. And above all, the instruments for carrying out the objectives were not well coordinated despite the creation of liaison committees. Certain initiatives turned out to be too complex. According to a preliminary report on the 7th Plan: "The active employment policy envisioned by the 6th Plan could not for many reasons have its expected development before the recession of 1974-1975 should emphasize the defensive character of decisions to be taken and confine the major instruments of public power to a role of mending the accidents affecting employment."

A severe judgment? No. We agree with this point of view. While unemployment may not have been so high as in other industrial countries, it may be more prolonged in France than elsewhere.

Criticism may be all the more severe in that the public authorities did not make full use of the tools that were in fact available before the crisis. These were poorly utilized and in piecemeal fashion.

Has a lack of political will to be mentioned? Judgment on this is delicate and subjective. It is not to be overlooked that in France an active employment policy, however strong or pervasive, runs into a mesh of specific relationships between the government, the employers and the unions. Because of the orientation of French unionism and the conservatism of a large part of the body of employers, relations between them raise the possibility of considerable conflict. Managing jointly administered institutions, for example, is a very delicate affair!

Personally we think, however, that the regrettable lack of coordination and imagination made even more difficult the political priority given to monetary balance and the struggle against inflation. It is true that late in December 1975 France might have experienced more serious unemployment than it did. But another policy, without speaking of an electoral change, might have resulted in unemployment much below 1 million--these observations are not ones of intuition but of real conviction.

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A TRADE UNION VIEW OF LABOR MARKET MEASURES IN THE UNITED KINGDOM

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1. This paper commences by referring to the present economic and employment situation in the United Kingdom and goes on to describe briefly and to assess the current measures being taken by public authorities in the manpower field. Finally, it refers to the economic outlook and to proposals put forward by the Trades Union Congress (TUC) and others for further measures to maintain and promote employment.

The Present Employment Situation

2. In the United Kingdom, as elsewhere during the postwar period, the number of unemployed has risen and fallen according to the level of demand in the economy. There has been an overall upward trend, however, and each recession in the past 15 years has produced a higher level of unemployment than the last. Particularly since 1967, each subsequent period of economic expansion has not caused unemployment to fall to the level of the previous boom. During the period of expansion in 1972-73 in the United Kingdom, unemployment fell to 2.1 percent, but this was twice as high as the level of unemployment that was common during booms in the 1950s. It must also be remembered that the relatively low level of unemployment (by recent standards) in effect during the 1972-73 expansion was achieved only at the cost of running a very large deficit on the balance of payments (even before the oil crisis), a huge increase in the government borrowing requirement, and a rate of inflation of twice the level of that of most other advanced industrial countries. These factors make it most unlikely that a British government would take steps similar in scale to those taken by the Heath government in 1972-73 to end a period of economic recession. This is generally accepted at present by the Trades Union Congress and other groups who find the present level of unemployment intolerably high, as well as by monetarist economists.

3. Yet the current recession is deeper and more serious than any other that has occurred during the postwar period. In previous recessions since 1945, total national output has leveled and has

ceased to grow but it has not normally fallen. Between the third quarters of 1974 and 1975, however, gross domestic product fell by 4.6 percent (to the same level as in 1972), industrial production by 7.7 percent, and manufacturing production by 8.7 percent (to levels no higher than those of 1970). At the same time, productivity has risen, and the result is that in this cycle, unemployment in Great Britain had risen to 1.2 million seasonally adjusted.

4. The overall level of unemployment, when adjusted to take account of different international methods of measurement, has not been exceptionally high by international standards. If the U.S. definition is used, unemployment in the United Kingdom has remained well below the U.S. level, below the French level, and not markedly higher than that in West Germany. But the British recession contains elements that make it exceptional. The timing of the recession appears to be later than in most other OECD countries. The economic recovery that is taking place in the United States or in West Germany is not yet apparent in the United Kingdom. The rate of inflation, although significantly reduced over the past 12 months, is still twice as high as that of most other industrialized countries. Despite record level of exports and an improving trend, the balance of payments is running at a substantial deficit. The slide in the value of sterling is also a very worrisome feature. But most seriously of all (and a prime cause of the other factors listed above), the rate of gross fixed capital formation as a proportion of GNP remains below that of every other EEC country, and labor productivity in important sectors of manufacturing is also less than in those of our competitors.

5. Regionally, the pattern of unemployment has changed since the last recession. Traditionally, the regions in the north and west of the country have been less prosperous and have experienced higher levels of unemployment than have the Midlands and the southeast region. However, the decline in the relative and the absolute demand for motor cars has meant that the English Midlands have experienced an increase in unemployment above the national average. On the other hand, Scotland, which has usually come off worst of all the regions (with the exception of Northern Ireland) in previous periods of recession, has benefited from the development of North Sea oil and its unemployment rate of 6.1 percent,

although high, is lower than in the previous recession of 1971. The northern region (centered on Newcastle) and Yorkshire and Humberside has also experienced less than average increases in unemployment.

6. The impact of the recession has not only had a widely varying effect on different regions of the country, but also on different groups in the labor force. As in the United States (although not yet in the same extent), unemployment tends to be especially high among the weaker sections of the working population--the old, the unqualified and untrained young, the unskilled, the unfit, and certain ethnic minorities. At the same time, there is an unsatisfied demand for workers with certain skills or with the adaptability and the aptitude to respond to training.

Current Measures

7. The serious deficit on the balance of payments and the relatively high rate of inflation have to date ruled out general reflationary action by the government. Yet within this constraint, a wide range of measures have been taken to maintain and promote employment in the United Kingdom, and particular attention has been given to assisting particularly hard hit groups and areas. Many of these measures are run by the Manpower Services Commission (which is a body with a governing council composed of representatives of the Trades Union Congress, the Confederation of British Industry, and local authority and education interests) and its agencies, which are responsible for the training and employment services. Others are run by the Department of Employment. The measures, grouped under the heads subsidies, training, job creation, labor mobility, and employment legislation, are referred to below.

Subsidies

8. The Recruitment Subsidy Scheme has been introduced to operate from October 13, 1975, to September 30, 1976. Young people eligible are those under 20 who are unemployed with not more than 6 weeks' work experience and who have left full-time education in the summer of 1975 or at Christmas. Those eligible attract a subsidy of £5 per week for up to 26 weeks. Twenty

thousand young people have so far been helped by this scheme.

9. The TUC was initially cautious about any measures that discriminate unduly in favor of young persons and against other workers, because unions had experience in previous periods of unemployment of employers who had laid off mature workers in order to employ young workers on low rates of pay. Under this scheme, however, there are safeguards for older workers. An employer cannot claim the subsidy unless he gave an assurance that he had not dismissed an employee in order to create a vacancy for a young person. The scheme encourages the employer who is aware of the need to build up his labor force for the upswing in business activity to provide employment opportunities for the young.

10. A scheme that applies to all ages is the Temporary Employment Subsidy of £20 per week for a period of up to 26 weeks (with a possibility of extension for a further 26 weeks) for each employee retained in the case of an impending redundancy affecting ten or more workers. The purpose of this scheme is to assist employers in temporary difficulty, so that they need not declare redundancies and disperse their labor force. For a company to qualify, it must be able to show that its prospects are sound and that its difficulties are not permanent. Applications covering about 40,000 workers have been approved.

11. The Regional Employment Premium has recently been doubled. This is the most important of a number of financial and fiscal incentives that existed prior to the current recession and that have been offered to employers to induce them to establish businesses in regions with high unemployment. The main thrust of regional policy in the United Kingdom has been in bringing jobs to the workers. Before 1967, however, the incentives (for example, tax concessions) were directed at subsidizing new investment and encouraging capital-intensive industry. But in 1967 the Regional Employment Subsidy was introduced, which is a labor subsidy paid to employers for each worker they employ in the regions with high unemployment. This measure had the double advantage of encouraging labor-intensive projects and of helping existing firms as well as new and expanding

ones. This lack of selectivity, however, has been criticized on the grounds that much of the payment has gone to firms that could have operated profitably without it.

12. There seems little doubt that it has been a powerful incentive, especially since its value was doubled in July 1974, but to date, there has not been enough evaluation of the costs and benefits of this and other regional policies.

13. Under the Industry Acts of 1972 and 1975 government aid has been available to industries and individual firms in special difficulties. Among the firms helped have been British Leyland (the largest of all, which needed special supplementary legislation), Chrysler, Ferranti, and Alfred Herbert. Special assistance has also been given to the wool industry. All these firms are major employers and exporters and would almost certainly have gone bankrupt had the government not intervened. It is likely that many supplier firms would also have been seriously affected had the firms collapsed. All but Chrysler are now largely under public control exercised through a newly established state investment bank (the National Enterprise Board). The rescue of these (and a small number of other) firms has probably made the greatest contribution of all to maintaining employment, and it has been estimated that 750,000 jobs have been saved for the time being through these measures (taking into account likely redundancies at suppliers.

14. In February 1976, a further £55 million was allocated under the Industry Act on schemes for the modernization and restructuring of important sectors of industry. An additional £1 million will be allocated to the Development Commission for the construction of small factories in rural areas. The National Enterprise Board is also discussing with the machine tools industry the question of finance for the stockpiling of machine tools, and there has been the recent provision of £50 million for the improvement of public sector housing that can be started quickly and finished before the end of the financial year 1976-77.

Training

Training measures can be grouped under two heads: help for industry's own schemes and training undertaken by the public authorities.

Special Help for Industry

15. In previous periods of recession there has been a tendency for employers faced by financial difficulties to cut back on training, particularly on their recruitment of craft and technician apprentices. This has resulted in shortages of career opportunities for young people and in some shortages of skilled labor in periods of economic expansion. At the same time, training schools and training staff were among the first areas to be cut back when a firm was in financial difficulties. The Manpower Services Commission resolved to tackle this problem.

16. In 1975 some £31 million was made available to Industry Training Boards* and other organizations, mainly to safeguard the level of long-term transferable skills (that is, apprentice and technician training) and as a result of which some 30,000 training places were made available or received financial support. This money was spent in the following ways.

17. First, premium grants were paid to employers in respect of each craft or technician apprentice or other long-term trainee recruited in addition to the employer's planned or normal intake. Grants were available both for apprenticeships involving integrated courses (that is, off-the-job training and associated further education) and for occupational training involving at least 12 months ITB-approved training, usually on-the-job and with associated further education. The grants were intended as a significant contribution to the employer's costs during the trainees' first year. Another arrangement was that grants were paid to employers with ususued high quality training facilities who were willing to recruit craft or technician

* There are industrial training boards (ITBs) established for 23 industries. Each board is composed of employers, trade unionists, and educationalists and has the job of improving the quality and quantity of training: to do this the board may impose a levy on employers in its industry and from this source, pay grants to employers who train in line with Board standards. In addition, firms training to meet their own needs may be exempted from the levy.

apprentices over and above their planned intake. Grants are payable for the first two years of training on condition that the employer undertake to provide training and employment for the whole apprenticeship. In addition, special arrangements in the form of supplementary grants were made for the construction industry, which had been particularly hard hit by the recession.

18. Second, where the level of employers' recruitment for long-term training was likely to fall below the particular industry's long-term training needs, ITBs made available "training awards": here the ITB itself sponsored young entrants and paid for their initial off-the-job training and associated further education. Toward the end of the initial training, efforts are made to place trainees with employers to complete their apprenticeships; these unplaced apprentices continue training under ITB sponsorship until suitable employment is found for them. Nearly all the 1975 awards were for training in craft or technician occupations.

19. Third, special arrangements were made to help apprentices who had been made redundant, and whose apprenticeship could not be transferred to another employer. Grants were paid to encourage employers who would not otherwise engage a redundant apprentice from elsewhere, and grants were paid to ITBs who themselves undertook, where necessary, to continue the apprentice training.

20. Fourth, it was necessary to insure the provision of industrial experience to college-based "sandwich" course students. Grants were made available to encourage employers to offer employment to college-based sandwich course students for the industry-based part of their course.

21. These measures are now being continued and extended. A total of 35,000 will be helped by the 1976 measures, and the Manpower Services Commission intends that they should go much wider than long-term training in industries with an apprentice training tradition. The MSC has suggested that ITBs consider three specific areas: grants to employers who offer training

or retraining instead of redundancy; preservation of existing training facilities needed for the upturn but which at the present time are under-utilized and likely to be dispersed without financial assistance; and medium-term training below craft level.

22. There is a considerable danger with these measures that the MSC will find that more and more employers will anticipate that the MSC is prepared to make up any shortfall in the total training effort of industry: there will therefore be a strong temptation for employers to reduce their training activity accordingly. For this reason, it is very doubtful if measures of this kind can be continued beyond this year, and the Manpower Services Commission is shortly to publish proposals to be implemented in 1977 for a scheme to be run through ITBs for financing training in transferable skills jointly by the MSC and employers. This scheme would remove a substantial proportion of the costs of training from employers, make them much less likely to cutback on training during a period of recession, and it is hoped, make special measures unnecessary.

Training by the Manpower Services Commission

23. The MSC is also rapidly expanding its own training services for adults. Eighty thousand adults are likely to be trained in 1976--many in craft skills--by the MSC's Training Services Agency in its own skill centers, and in premises it leases from employers and educational institutions. The bulk of trainees helped in this way, however, tend to be drawn from the most enterprising and better educated groups among the unemployed and are usually under 45 years of age. There is evidence that workers who have no education qualifications or previous training experience find it difficult to adapt successfully to these courses, and it is also apparent that workers over 40 find it very difficult to complete these courses. The old, the unfit, the unskilled, the unqualified, and the immigrant--sometimes called the outer labor market--do

not have their needs met by these courses. To help workers qualify for training courses, however, preparatory courses have been designed to teach trainees basic literacy and numeration. The courses last from 12 to 36 weeks, according to individual needs. They are normally not available for those under 19. Since January 1975, however, mainly to cope with the problems of young immigrants, courses have been open to those over 17 who are unemployed; who have been out of full-time education for one year or more; and who have lived abroad for one year or more when they would have been subject to compulsory school attendance if they had been in the United Kingdom.

24. There has also been an expansion of courses providing training below craft level for unemployed young people. Such training is planned to rise from about 1,000 trained each year to a target of 7,000 for 1976. Courses are run at employers' establishments, colleges of further education, and skill centers in a variety of occupations, chosen according to the likely labor market needs of the area. Courses last from 4 to 24 weeks--most running for 10 to 12 weeks--and are of two main types: first, courses aimed at presenting a range of opportunities to young people and then going on to equip them for a specific job; and second, more courses to help people who have difficulty in getting and keeping a job.

25. The total number of workers being helped by means of training measures is 122,000.

Job Creation

26. The Job Creation Program (JCP) was launched by the MSC in October 1975 and is due to run until March 1977. It started with a government grant of £50 million, increased by £10 million in December, and in February 1976 the chancellor announced that a further £30 million would be made available to enable the program to continue at a high level until the end of 1976. Although open to unemployed people of all ages, the program gives priority to the young unemployed and to older workers. The majority of people recruited under the program so far are under 24, and the bulk of these are under 18 years of age.

27. Up until March 12, 1976, nearly 14,000 new hobs had been created, and it is expected that the program will eventually provide up to 55,000 jobs. Most of the projects come from the areas with high unemployment. In these areas, action committees have been set up (composed of trade union, employer, and local authority representatives) to assess and approve projects. It is also the task of action committees to see that proposed projects will not threaten the other workers' jobs.

28. Any organized group within the community can propose socially useful projects that will provide good work experience for those who otherwise would be unemployed. Project sponsors are encouraged to provide training opportunities, and where appropriate, further education is provided, including day release.

29. The program was designed as a temporary measure to help alleviate the worst effects of unemployment. The Commission is making arrangements to evaluate the labor market effects, to analyze those the program is helping, and to study whether JCP helps in finding and maintaining subsequent employment.

30. No one has expected the projects under this scheme to be very sophisticated. There has been some criticism that the work created is largely of poor quality and that it is of no intrinsic value to the young people involved. Many of the projects, however, are providing interesting work with associated training, and the TUC strongly supports the scheme and considers that it is making a significant contribution toward easing unemployment among especially hard hit groups in the labor force. The MSC is currently exploring ways of improving the quality of projects and it may well be that the scheme could be of permanent value in periods of economic expansion, although the emphasis might switch away from young workers to the old and unfit and the scheme might operate only in localities exceptionally hard hit by unemployment.

31. The Community Industry Scheme (mainly financied by the Department of Employment) engages unemployed young people on work projects of social value, especially environmental and community work tasks that would not otherwise be done. Its broad aim is to assist young people in difficulty to cope more effectively with life in society, both in terms of overcoming personal problems and making a positive contribution to their communities; its particular aim is to prepare for regular employment in as short a time as practicable unemployed young people who for various reasons find it more difficult than their contemporaries to obtain and keep jobs, with special emphasis on the needs of those who are socially and personally disadvantaged.

32. Until August 1975 Community Industry had a maximum authorized capacity of 2,000 young employees. This has now been increased to 5,000 per year.

Labor Mobility

33. The MSC runs schemes to assist the mobility of labor with a view to achieving more flexibility in the use of manpower resources and to ease imbalances. The largest and most significant of these schemes is the employment transfer scheme, which helps unemployed or redundant workers to move to work in areas beyond daily traveling distance of their homes. These schemes provide generous help, but in 1975 only about 14,000 workers used them, and it appears that substantial obstacles exist to mobility in the United Kingdom. These include shortages of reasonably priced or rentable accommodations in the more prosperous areas, particularly in the South East, and a strong attachment by workers to the area of their birth and upbringing.

Employment Legislation

34. Since 1965, there has been legislation on redundancy payments in the United Kingdom that, in brief, has provided lump-sum compensation to workers who are dismissed for reasons of redundancy. In February 1976, this legislation was supplemented by new measures that provide that in the event of

redundancies, employers must consult recognized trade unions in advance and notify the Department of Employment. The period of advance consultation and notification varies according to the number of redundancies proposed: for example, if an employer is planning to declare 100 or more redundancies within a period of 90 days, advance notice of 90 days needs to be given to recognized unions and the DE. The TUC hopes that this period will facilitate a joint investigation by the union and employer, first to see if there are any ways of avoiding redundancies, and second, if redundancies are unavoidable, to negotiate arrangements for determining who shall be selected and what the terms of compensation should be. On this last point, unions have often been able to negotiate better terms than the statutory minimum set out in the Redundancy Payments Act of 1965.

35. It is not within the scope of this paper to deal with social security legislation. However, on the actual effect of unemployment, the point is often made that the present level of benefits cushions workers to such an extent that unemployment is no longer the serious problem it was. But it is likely that the public acceptance of unemployment may fall as the duration of unemployment increases. In the United Kingdom the initial effect of unemployment may in some cases, where the person is eligible, be cushioned by earnings-related benefits, tax rebates, and in some cases redundancy payments. After six months, however, earnings-related benefits are replaced by flat-rate benefits and after one year by supplementary benefits alone. Therefore, as the recession continues and the duration of unemployment increases, the material deprivation of the unemployed and their families will increase.

Trade Union Proposals for Further Measures

36. The TUC is currently pressing for a number of further measures to be taken to strengthen selective manpower policies in the United Kingdom. These measures are described below.

Job Creation Subsidy

37. A general employment creation subsidy might well be quick acting in making an impact on unemployment this year. The TUC is proposing that a new labor subsidy be paid to firms establishing new jobs in local areas of high unemployment. As stated earlier, the regional employment premium, which is a general labor subsidy, is payable in the Development Areas and Special Development Areas. However, the TUC considers that a different approach should be adopted for the new job creation subsidy. The new subsidy should be payable to firms employing more labor in all local areas with an unemployment rate of 0.5 percent above the national average. (This measure has similarities to the West German scheme.) However, a local basis rather than a regional basis is favored by the TUC because of the increasing disparity of local areas with regions. For example in November 1975 in Scotland, which is a Development Area, the unemployment rate varied from 2.2 percent in Aberdeen to 8.0 percent in Irvine and 8.7 percent in Girvan. In the South East the figures vary from 1.7 percent in Hereford to well over 6 percent in inner London areas, particularly in the east of London.

Special Measures to Help the Young Unemployed

38. The measures being taken by the Manpower Services Commission are making a useful contribution to dealing with youth unemployment. But the TUC takes the view that the present level of youth unemployment is intolerable and will worsen with the influx of school-leavers on the labor market during the summer. Last August there were 158,200 unemployed school-leavers and a total of 220,000 unemployed under 20 years of age. In December 1975 there were 32,000 and 180,000 respectively.

39. The TUC believes that the aim should be to place young people either in employment or in training once they have left school. In the TUC's view young people under 18 should not remain unemployed for more than a few weeks, and consequently the existing measures will need considerable strengthening.

Additional action is required to encourage more young people to undertake relevant courses of full-time education; to expand vocational training facilities; and to encourage employers to provide additional jobs for young people.

40. The majority of the unemployed school-leavers have little or no educational qualification. If more young people are to be encouraged to stay on at school, their families may need some financial help. In this respect, the present scale and level of educational maintenance allowances for the 16 to 18 year olds are totally unsatisfactory. The Department of Education and Science has for some time been reviewing the present arrangements, and action is now required to insure that the level of awards is raised and their availability broadened before September 1976. Such action could significantly affect the number of school-leavers entering the labor market this coming summer.

41. The TUC is currently considering the feasibility of an additional scheme under which programs of up to 6 months could be organized during which young people registered as unemployed would be provided with work experience in employers' establishments combined with attendance at education centers.

Selective Recruitment Subsidy

42. The measures described above taken together would reduce the scale of unemployment only during such time as the young people concerned were enrolled in the particular scheme. That in itself would be helpful, given some anticipated improvement in the labor market. Additional measures would be required, however, to encourage employers to recruit young people once they have completed their courses or period of work. Since this would mean that employers would recruit labor that is additional to their immediate needs or means, the TUC proposes that those employers who provide jobs for young people who have completed a particular program, should be eligible for the £5 selective recuitment subsidies. If the labor market allows, it might be possible to exclude from this proposal the employment of young workers who have completed courses associated with apprenticeship.

Conclusion

43. Although selective policies should be strengthened, they cannot themselves insure a return to full employment, and measures to increase demand must be taken as well. Given the United Kingdom's constraints in the short term arising from the balance of payments and the need to improve the industrial structure, it would be inappropriate for the UK government to stimulate a consumer-led boom. However, the TUC has been pressing for action to be taken on pensions and tax allowances that together with other measures will provide a stimulus of about 3 percent of Gross Domestic Product (GDP).

44. The TUC is also calling for a wider industrial policy to expand the role of the National Enterprise Board in encouraging investment and stockbuilding and the establishment of an investment reserve fund to back up a planning agreement system involving the government, large companies, and their recognized trade unions. These selective policies, although limited, are important innovations in industrial and employment policies.

45. The United Kingdom is also suffering from long-term structural problems as well as the cyclical fall in activity. Industrial policy is therefore directed toward reflating the economy through investment and raising the standard of UK industrial performance to competitive levels. However, such policies run the danger of creating a balance-of- payments deficit because in comparison to similar industrial countries, the United Kingdom has a high import propensity. If the United Kingdom is to break out of the stop-go cycle into steady and sustained growth, growth in imports cannot be allowed to exceed growth in the rest of the economy. To reinforce this objective the TUC has argued for the use of temporary selective import quotas that would be operated by reference to the level of import penetration industry by industry and product by product.

46. The TUC is not asking for a cut back in the volume of imports but is arguing for the use of controls to prevent imports from being sucked in faster than the overall growth of the economy. Furthermore, this is in the interests of other countries as well as the United Kingdom. A strong, stable, expanding British economy will provide a better market in the future than one bedeviled by balance of payments problems and a stop-go cycle of government policy. The alternative policies of continuing devaluation of the pound sterling or continued deflation of the economy will be far more damaging than a period of temporary selective but direct controls on manufactured and semimanufactured imports would be.

47. Other European and developed countries could greatly assist the adjustment of the UK economy by reducing their own trading barriers. A burden-sharing agreement has been reached for textiles and clothing imports within the EEC, and this principle should be extended to other products. The UK economy is one of the most open in the world, with administrative and institutional arrangements that do not discriminate against foreign firms (unlike certain countries currently extolling the virtues of free trade), and criticism from other countries of the policies being advocated on imports in the United Kingdom by the TUC is therefore difficult to reconcile with the uneven spread of imported manufactures around the OECD and the EEC countries.

April 9, 1976

PUSHED OUT OF THE COOKOO'S NEST

The Preference for Young over Older Workers in Belgian Social and Economic Policy in Times of Recession

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In this paper I intend to analyze the social and economic policy as laid down in social legislation in Belgium, to improve employment opportunities for unemployed workers in times of economic recession. This analysis tends to indicate that the Belgian government shows a remarkable bias in favor of the young unemployed as against older unemployed and even older active workers. This bias does not appear to be justified.

To this end I will first draw a general picture of the Belgian government's response to economic recessions in the field of social legislation, from the Great Depression of the 1930s until today. In a critical review of these measures, I will point out their contradictions and their inefficacy. As an explanation, I will propose the concurrence of interests of employers and trade unions. The same phenomenon will explain the prevalent bias against the older unemployed and older workers. I will show that preference for the problems of the young is a new phenomenon. This preference is unjustified, because it is not directed at the problems of the young themselves, but at combating critical attitudes toward society, attitudes that are generally identified with the "contestation" movement of the young.

Anti-recession Policy in Social Legislation

An economic recession is characterized by a slackening of the growth rate of GNP, which the government wants to uphold with a number of measures in the field of economic and monetary policy. At the same time (or somewhat later) there occurs a strong increase in the rate of unemployment. This is the social aspect. Here also the government will try to curb this evolution with all possible measures in the field of social and economic policy.

Economic measures to reduce unemployment have been well known since J.M. Keynes: public works and other public investments, temporary assistance to firms in difficulties, tax concessions and other measures to attract foreign investors, and other such measures. These are outside our immediate concern.

Social measures to reduce unemployment can be of different types. One is to find jobs for the unemployed, by bringing together the supply of and demand for labor. If that is not sufficient, one can try to adapt the supply of labor to the demand, by vocational training. If one suspects unwillingness to work on the part of the unemployed, one can impose controls to eliminate those who are not really prepared to take a job that is offered to them. One can also eliminate those who should not really be charged to unemployment insurance, because they are either incapable of working or too old to find employment. These persons will be shifted to sickness benefit or to retirement pensions. This latter point is of the greatest importance for our subject, but it should be seen in the context of the other points.

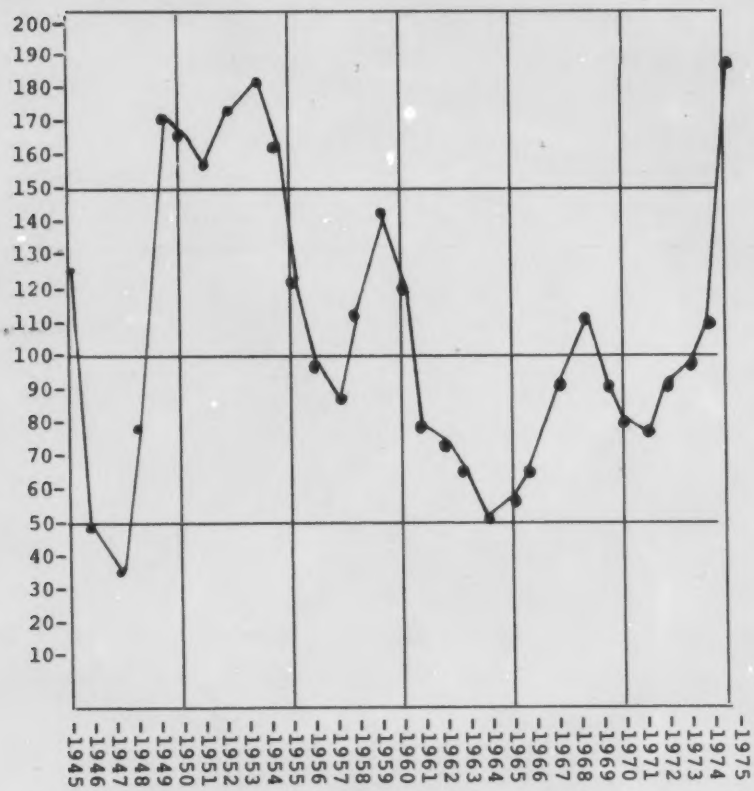
We should bear in mind that the social aspect of an economic recession is, in the view of government, the increase in unemployment. This development will bring the government to take measures to assure that unemployment insurance--which is under a heavy strain at such times, its incomes from social security contributions falling low, and its expenditures being multiplied--bears the charge only of those unemployed workers who cannot find a job through the employment exchange, even after retraining; who are willing to take a job; and who are able to do so.

Belgian Social Policy Measures in Recession Times: 1930-76

Since the Great Depression of the 1930s and the economic difficulties caused by World War II, Belgium has known a few

periods of economic recession. If we look at the unemployment figures, we see the following picture:

UNEMPLOYMENT IN BELGIUM 1945-75
(in thousands)



Based on figures from G. Spitaels and D. Klaric, Le salaire indirect et la couverture des besoins sociaux, vol 1: Vingt ans de securite sociale en Belgique, Brussels, Institut de Sociologie, 1968, 218 (1945-65); and from: Rijksdienst voor Arbeidsvoorziening, Maandelijks Bulletin, 1975, 12, 14 (1965-75).

It is clear from this diagram that the important years to look at are 1949-50 and 1952-53, or rather the entire period from 1949 until 1954, when the highest unemployment figures since the Great Depression were observed. Two smaller recessions are found in 1958-59 and 1968, but they should not have given rise to spectacular actions by the public authorities. The recession of 1974-76, however is very worthy of interest indeed. The unemployment figures have reached and even exceeded the 1953 peak, with a figure of 229,025 unemployed in December 1975 (Rijksdienst voor Arbeidsvooriening, Beknopt overzicht Arbeidsmarkt 1975, Brussels, January 1976, 2).

What has been the response of the Belgian government to these crises, as far as social legislation is concerned? The answer may be found below, divided into periods.

1930-34

At the time of the Great Depression of 1930-34, several important changes were made in unemployment insurance and retirement pension legislation. An act of July 14, 1930, reduced the age of retirement for women from 65 to 60 years; it also reduced the age of retirement for certain particularly unhealthy occupations; and it created the possibility for all workers to apply for their pension from the age of 60 years on, with a reduction in the amount of the pension of 5 percent per year. This was clearly an attempt to shift a number of unemployed workers from unemployment insurance to the pension funds. This measure, however, proved insufficient. In 1933 the government took more direct measures to reduce the number of unemployment benefit receivers, by sharpening the (later abolished) means test, and by intensifying the controls on the willingness to work of the unemployed, and on the reality of their unemployment. (See G. De Broeck, Sociale Wetgeving, in S. H. Scholl, 150 Jaar Katholieke Arbeidersbeweging in Belgie, Brussell, s.v. Arbeiderspers, 1966, 3d part, 196-203.)

1949-54

The important postwar recession also brought measures to reduce the number of persons entitled to unemployment benefits. The Royal Decrees of March 12 and October 25, 1949, introduced a waiting period of a certain number of days of work within a certain time before unemployed women could be entitled to unemployment benefits. This provision was extended to all unemployed workers by the Royal Decree of June 22, 1951. In another perspective, the Decree of May 6, 1949, authorized the public authorities to engage the unemployed in public interest work--a measure meant to separate the work-shy from the really involuntarily unemployed. It appears that this measure was applied especially to older unemployed: Spitaels says that 40 percent of the workers so occupied were over 60 years of age (G. Spitaels, and D. Klaric, op. cit., p. 238).

Somewhat later, when unemployment persisted and even continued to increase, the government turned toward measures in the field of pension insurance. The acts of December 29, 1953, and of May 21, 1955, have broadened the field of application of the pension schemes for workers in a spectacular way, especially by opening the right to pensions for workers with an incomplete career. This measure has brought many to apply for their pensions, and at the same time to leave the labor market: from 7,525 beneficiaries of an incomplete retirement pension in 1955, the numbers went up to 21, 159 in 1956 and to 33,240 in 1957, and they continued to increase (Spitaels and Klaric, op. cit., p. 149).

1958-60

The less important recession period of 1958-60 gave rise to some important social and economic legislation, particularly the so-called Eenheidswet (Unique Act) of February 14, 1961, which caused grave troubles and a general strike. For our purpose, the most relevant measures under this act are the promotion of vocational training, the sharpening of controls on the conditions for admission to benefits, and the organization of the labor market--this latter point to be put into practice only in the next crisis. (See p. 7.)

At the same time a Royal Decree authorized the unemployment insurance system to grant special subsidies to employers who would be willing to offer jobs to the hard-to-employ. These persons were defined as handicapped workers, with an incapacity to work of at least 30 percent (or 20 percent for a mentally handicapped); or as older workers, over the age of 55 for manual workers, and over the age of 40 for employees who had been unemployed during twelve of the eighteen months preceding their employment.

Later in the same year, a Royal Decree of December 27, 1961, prolonged the waiting periods required for entitlement to unemployment benefits.

1968-69

The sudden increase in unemployment in 1967-69, which reached a peak in 1968, gave rise to some interesting legislation, particularly in the fields of labor law and unemployment insurance.

In labor law, the rules permitting the employer to temporarily or partially lay off his workers--introduced in 1962 mainly as a work-sharing device to provide an alternative for dismissals--were duly specified and refined to prevent employers from shoving off too much of their responsibility on the unemployment insurance machinery (act of November 21, 1969). By the same act, the law on contracts of employment for employees providing for long periods of notice for workers with long years of seniority, was modified so that the period of notice was reduced to six months or less if the employee was dismissed or retired at reaching the age of retirement. Even if this rule is generally justified by technical reasons (W. Beirnaert, De opzegging van de arbeidsovereenkomsten voor werklieden en bedienden afgesloten voor onbepaalde duur, in: R. Blanpain, Arbeidsrecht, Brussel, C.A.D., s.d., vol. 2, 5, 57-58), it tended clearly to facilitate the retirement of older workers from the labor market.

In unemployment insurance, a large number of reforms are concentrated in this period.

A Royal Decree of October 24, 1967, granted the right to unemployment benefits for part-time workers, thus encouraging employers to offer, and unemployed to take up, part-time work. The parallel labor market so created for part-time work was obviously meant to reduce the strain on the full-time labor market.

With the Royal Decree of January 12, 1968, the special emphasis on the problems of the young makes its appearance. This decree gives the right to vocational training in the building occupations to younger people, those under the age of 18.

The Ministerial Decree of February 23, 1968, recognizes the special situation of the older unemployed, who can practically give up all hope for re-employment. It abolishes the condition of daily control by stamping of a card for unemployed men over 60 years, and for unemployed women over 55 years, if they do not have a normal capacity to work. As this incapacity appears to be the case with the great majority of these people, the latter specification was dropped by the subsequent Decree of April 4, 1968.

The growing interest of the legislator in the young unemployed was clearly illustrated by the Royal Decree of October 3, 1968, which instituted a right to unemployment benefits for school-leavers under 25 years of age, after they had been registered at the labor exchange for three months. This requirement is in sharp contrast with the waiting period requirements for unemployed over the age of 50, which are not less than 600 days of work, to be completed within the 36 months preceding the application for benefits. This very easy access to benefits for the young was meant to integrate them into the system, to combat idleness--which was considered to be one of the causes of the revolutionary movements around May 1968--and to provide the administration with pressures to put the young to work or in vocational training. Consequently, another decree opened the special centers for vocational training of the young to all unemployed under the age of 25.

A very different line was taken by the Royal Decree of December 5, 1969, which put into application an almost forgotten rule from the Unique Act of 1961. It compelled all employers to notify the employment authorities of collective dismissals, and to notify the employment exchange of all vacancies open for longer than three days. Here the objective was clearly to enable the employment agency to act more efficiently to replace all dismissed workers, and in general to facilitate the working of the labor exchange by providing it with a better knowledge of the labor market on the supply side. The many exceptions and the absence of deterrent sanctions have certainly prevented these measures from having any significant effect on (un)employment.

No important changes have occurred during this period in pensions legislation in relation to our subject. One exception might be the reduction of the pensionable age for underground workers in the coal mines, who have worked in the underground for 27 years. But this rule came some time after the recession (June 27, 1972), and it can hardly have been expected to take large numbers of workers away from the labor market.

1973-76

The present-day economic recession may be said to have begun in 1972, and continued to deepen throughout 1973, 1974, and 1975, thus causing governments to turn all their attention to it.

It is no wonder that, especially in the last year, it gave us a whole range of reforms in social legislation that may be regarded as anti-recession measures. Even if the economic situation appears to be improving now (March-April 1976), the government is still preparing specific plans for "economic recovery" and for austerity in its public finance policy, which encompass many changes in social legislation.

Many measures had already been taken at the end of 1974 and in 1975 in the field of unemployment insurance, and also in pensions legislation and in labor law.

In the latter field, the most important development occurred with the signing, at the national level, of a collective agreement between the associations of employers and of workers, as represented in the Nationale Arbeidsraad (National Labor Council) on December 19, 1974. This agreement, the seventeenth since the Nationale Arbeidsraad received the authority to conclude such agreements, was made compulsory for all workers and employers in the country by Royal Decree of January 16, 1975. It instituted the right for a worker over 60 years of age to receive from his employer, after dismissal, a supplement to his unemployment benefit until he reaches the age of retirement. This supplement amounts to half the difference between his net wages (with a certain ceiling) and the unemployment benefit. It is meant to make the transition easier between a late dismissal with subsequent unemployment, and retirement. It is generally called pre-pension.

The idea of this pre-pension has been taken over by the government in its act for economic recovery, which we will discuss later.

Interesting measures were also taken in the areas of retirement pensions. Significant but limited in scope was the Decree of April 9, 1975, reducing the number of years of underground work in the coal mines entitling to a full retirement pension to 25, instead of 27 as obtained in 1972. Of more consequence

is the rule, hidden in the middle of the extensive and labyrinth-like act of January 5, 1976, "on the propositions for the budget of 1976" (generally called the Program Act), which says that retired civil servants and other public officials will be subject to the same limitations in their right to gainful employment as the pensioners of the private sector. These latter can only work half-time (if they can find such a job) or can earn only a fixed amount per trimester or per year, and have to declare this occupation to the pension fund (except in cases of minimal importance). The public sector was always free to combine pension rights with other sources of income, much to the annoyance of the trade unions, which resented both the financial discrimination between pensioners, and the unfair competition of retired civil servants on the labor market. It is probable that the latter argument has been paramount in the recent reform.

Some minor changes were made in the pension scheme of the private sector by the act of February 27, 1976, which reduced the age of retirement for male workers to 64 if they have completed 45 years of professional career, and which supplied the calculation method for the career, thus making it possible for more workers to retire from the labor market with a full pension.

Most numerous have been the changes in the unemployment legislation itself, even if many of them are rather limited in scope.

By December 7, 1973, a Royal Decree was in effect that forbade the unemployed to refuse vocational training if they were designated to it by the employment authorities, lest they lose their right to unemployment benefits. A Royal Decree of January 30, 1975, encourages hiring of the unemployed by the public authorities for public works. A Royal Decree of April 7, 1975, establishes so-called subregional employment committees to advise the authorities on the way to adapt employment policies to the actual local needs and situations.

More important is the decree of February 19, 1975, adapting the unemployment legislation to the national collective agreement No. 17 on the pre-pension. This decree states that the unemployed older worker who benefits from this pre-pension, will continue to draw unemployment benefits at the full rate of 60 percent of his gross wages (up to a ceiling), instead of having this reduced after one year to 40 percent if he has no dependents. This rule makes the cost of the pre-pension easier to bear for the employer, and the dismissal after age 60 easier to accept for the worker--and for his union.

Two decrees, those of May 30 and of August 13, 1975, have provided for the hiring of the unemployed by social and cultural associations, and for probation periods for unemployed youth with the hope of getting them there to stay.

Vocational training is also encouraged. A Royal Decree of October 30, 1975, guarantees the previous wage level (up to a certain ceiling) to a dismissed worker who goes into vocational training. Only after one year will his level come down to that of ordinary vocational training compensation (at the level of the minimum wage in the new trade) or to that of ordinary unemployment benefits.

The already-mentioned "Programme Act" of January 5, 1976, contains a short paragraph on older unemployed. It provides for a supplement to the unemployment benefits of the handicapped, or of older unemployed, that is, those over 55 years for manual workers, or over 40 for employees. This reduces the need for the employment exchange to find them jobs (even if a special wage subsidy for their employment is provided in the regulations). It could even be considered as a kind of "pre-pre-pension," preparing the beneficiary for early retirement from the labor market.

New Legislative Measures

The Belgian government had been energetically preparing a plan for economic recovery throughout the year 1975. In December it finally introduced a bill in parliament "on

economic recovery." This has now become the act of March 30, 1976, published in the official bulletin (Belgish Staatsblad) of April 1, 1976.

Among many other things--the freezing of certain incomes, a surtax on wage increases, redistribution of social security charges, price controls--this act provides for a quicker integration of the young unemployed into the production process, by two different measures.

In the first place, it grants the right for school-leavers under the age of 30 years to apply for a probation of six months (renewable for another six months) in a firm or a public administration office, to test and to maintain their skills, and to make them familiar with the job environment. Every firm or administration employing more than 100 people shall be compelled--if so required--to accept 1 percent of probationers under this rule; smaller units shall be encouraged by government subsidies to do so. During the first six months the probationer will be paid 75 percent of the minimum wage according to his qualification; if the probation is prolonged, this will climb to 90 percent. An important point is laid down in Article 18: these probations must be considered as supplementary employment; they cannot be compensated for by dismissals of existing personnel. This explicates the aim of the rule, but it will be rather difficult to check in bigger firms, where there is a continual turnover of personnel.

The second measure is related to the pre-pension, under the national collective agreement No. 17 of December 19, 1974. The possibility of a pre-pension, which under the collective agreement was reserved for workers (only men) dismissed by their employers after the age of 60, is now extended to all employed workers who apply for it after the age of 62 (for men) or 58 (for women). They will be entitled to unemployment benefits even if they leave their jobs of their own free will, and in addition they will receive the pre-pension benefit, that is, half the difference between the unemployment benefit and their previous net wages (to a certain ceiling). In their case the

pre-pension will be paid from unemployment insurance, charged to a national solidarity fund financed by the surtax on wage increases and by the government. The important element is found in Article 24, which states that the pre-pension on the demand of the worker can be granted only if he is replaced in the firm by a young worker under the age of 30, attracted from outside. This is a very clear indication of the meaning of the entire scheme. It becomes still more clear in combination with Article 28, which forbids the pre-pensioner every form of gainful occupation in contrast to the normal old-age pensioners who are permitted to combine their pension with half-time work.

Critical Review

Reviewing critically the numerous measures taken by Belgian governments in the field of social legislation in times of economic recession, as described in this paper, one is struck by the fact that the government tries to reduce the number of unemployed on the unemployment insurance lists by all means at the same time, even contradictory ones. The symptom is the disease. The fever is fought with all remedies, even at the risk of making the patient more ill than he was before. This is a well-known phenomenon in medicine, and it seem to apply to social policy as well.

The contradictions are self-evident. With some measures the government clearly wants to promote employment of the greatest possible number of workers: improving the working of the employment exchange; encouraging vocational training to the point of making it compulsory; subsidizing the employment of handicapped and older workers; making compulsory the employment of probationers. But at the same time, workers are induced to leave the labor market, and employers are encouraged to dismiss them, by the lowering of the age of retirement; the supplying of the conditions for a full retirement pension; the providing of supplements to unemployment benefits for older people. This can be seen also as the aim of the easy access to unemployment benefits for school-leavers and certainly of the prolonged entitlement to family allowances (very important in Belgium).

Sometimes the conditions for entitlement to unemployment benefits are restricted: longer waiting periods, compulsory vocational training, or employment by public authorities; but they are also made more flexible, for instance, school-leavers, for the handicapped (a not-yet-mentioned Royal Decree of June 24, 1971), for part-time workers. Sometimes the employment of older or handicapped workers is encouraged, sometimes these people are pushed out of the labor market. Sometimes the controls on the unemployed are sharpened, sometimes they are softened, or even partly abolished, as in the case of the elderly unemployed (ministerial decrees of February 23, 1968 to April 4, 1968).

Another criticism, not unrelated to the previous one, is that of the low degree of efficacy of the measures that are taken or proposed. Most of these measures are very limited in scope, and hardly capable of causing effects of any importance. Moreover, they often lack enforcement and sanctions.

Too limited in scope, certainly are such measures as more severe controls on unemployment (1933, 1949, 1961) if discussed in terms of reduction of unemployment. The controls in unemployment legislation are already very severe; the number of cases of abuse of the receipt of benefits, although never completely known, cannot reach appreciable percentage of the total number of beneficiaries; and sharper controls cannot detect all cases of abuse. It is very doubtful, therefore, that the higher investment in wages for controlling agents will be compensated for by a reduction in the number of benefit receivers.

Such measures as subsidies to employers for the hiring of special groups of unemployed (the old and the handicapped in 1961 and 1971, school-leavers in 1975) are notoriously ineffective. The records of the Rijksdienst voor Arbeidsvoorziening (national Employment Agency) show that over the years only a few hundreds of older or handicapped unemployed have been put to work with such subsidies, whereas thousands have found a job without this help. In 1974, of 5,168 unemployed qualifying for such subsidy, 5,042 found a job without it, and only 126 applied for it (Rijksdienst voor Arbeidsvoorziening, Jaarverslag 17th, 22).

Of very limited importance also is the employment of unemployed in public works, by the public authorities, which can be a condition for continued entitlement to benefits since the decree of May 6, 1949. In spite of additional financial contributions from unemployment insurance funds (1966, 1967, 1971, 1975), in December 1975 the total number of unemployed so occupied was not more than 11,965, in a total of 229,025 unemployed (Rijksdienst voor Arbeidsvoorziening, Maandelijks Bulletin, 1975, 12, 5).

Vocational training also, however useful for the individual unemployed who cannot hope to find a job with his present qualifications, cannot really be seen as a way to produce a spectacular--or even a noticeable--reduction in unemployment. The already cited monthly bulletin of the Rijksdienst voor Arbeidsvoorziening of December 1975 mentions the number of unemployed in vocational training at that time: 5,851. For the year 1975, 12,189 unemployed have completed a full retraining course (Rijksdienst voor Arbeidsvoorziening, Maandelijks Bulletin, 1975, 12, 8-9). And this should again be compared to the figure of 229,025 unemployed in December 1975. Even if the number of trainees could be doubled within a short time, it would not even reach 10 percent of the unemployed. Provided that all those who are retrained should find a job after completing their course--quod non--there is still a lag in time before this type of measure can produce any effect. How big this effect will be is always doubtful, since it is not at all sure that employers would have hired fewer workers if they did not have at their disposal these newly trained workers.

Similar, criticisms can be made of the newly introduced (Act of March 30, 1976) right to probation for school-leavers under the age of 30, in firms or offices with more than 100 employees. This is an obligation for the employer, but only at the demand of the young unemployed. These demands will have to be concentrated in the regional offices of the National Employment Office, which must try to relate possibilities for probation to the qualifications of the applicants. This will be far from easy, as the bill states that probation will be granted only if the firm or the office can give the applicant work according to his completed training and his abilities. Eash applicant can name five

firms or offices where he would like to go. It seems probable that many applicants will propose the same well-known employers, thus creating a problem of selection. At the same time, other employers will escape the obligation to take probationers, because of their obscurity or their bad reputation.

The scheme is ineffective in other respects also. It is a temporary measure, meant to be effective only until December 31, 1976. Before most of the files will have been constituted the time will have run out. And who will bring the school-leavers to apply for a probation period? The act does not compel them; it counts on the attraction of a temporary underpaid appointment, not to do any serious work, in an engagement against the employer's will. . .and that is the only time when unemployment can be enjoyable, the first six months after leaving school. I believe that we can safely predict that not very many probations will effectively be made before the end of the year. Only a small part of the school-leavers, who are only a modest part of the total unemployed, will thus be kept off the labor market for a short time. No reduction of unemployment in realistic terms can be expected, the more so since, as has already been mentioned, in large firms it will be very difficult to check the fact that a worker has been dismissed and replaced by a probationer.

Similar observations can be made about the pre-pension at the demand of the worker, as introduced by the act for economic recovery. More and more workers already apply for their retirement pension in anticipation of their age of retirement, accepting the reduction in the amount of the pension. It will be largely the same people who will apply for a pre-pension. There could be more applicants now because of the higher benefit; but there may also be fewer because of the harsher conditions, notably the interdiction of all gainful employment.

If relatively large numbers of workers over the fixed age should apply for the pre-pension, this would not at all reduce the number of the unemployed. The beneficiary of a pre-pension is not a pensioner, he (or she) is an unemployed

worker, receiving unemployment benefits. The government's scheme just amounts to replacing younger unemployed by older unemployed with younger beneficiaries tending to receive lower benefits than do older ones. What it amounts to in the human sphere will be discussed next.

All this leads us to the somewhat strange conclusion that the Belgian government, with regard to a problem that it recognizes as the highest priority, takes measures that are contradictory to each other, and that seem to have little if any significant effect. How can this happen? Let me put it that the government believes that nothing much can be done about economic crises and unemployment, and therefore satisfies itself by merely taking measures that please the employers and the trade unions. Naturally these measures concentrate on fields where the interests of employers and trade unions do concur: notably the eviction from the labor market of those who are unwilling to work, or those who are unable to work, and of those who are in general less productive.

Against the Old, in Favor of the Young

In times of economic difficulties even more than in times of prosperity, age is a strong complicating factor in unemployment. It is always much more difficult to find a new job for an unemployed worker in the higher age groups, even if--what is rare--his physical capacity to work is intact. This fact is illustrated in a convincing way by studies like Beatrice G. Reuben's The Hard-to-Employ: European Programs, New York and London: (Columbia University Press, 1970), pp. 1-37.

Older workers are unattractive to employers because their productivity is decreasing; their openness to new techniques and to reorganization of work is diminished; they are better paid because of seniority; and they become subject to more incapacity to work due to illness. Older workers are also no welcome to the trade unions. They are by their mere presence a threat to the bargaining position of the unions, and to the employment and promotion opportunities of their members. And the unions cannot find it worhtwhile to put much energy into the defense of

older workers, since these workers do not bear, by definition, a promise of long years of union membership.

Unions and employers, therefore, have always concurred in their wish to get rid of the older unemployed. Attempts to do so were first made in the 1930s by persuading them to retire earlier (by lowering the pensionable age for women and for those in unhealthy occupations, and by the possibility of early retirement with reduced benefits). Soon other measures were tried: to occupy them in public works (1949); and to subsidize employers for their employment (1961). The collective agreement of December 1974 opened a new way, by permitting employers to remove an older worker from the labor market by dismissing him and granting him a pre-pension benefit. And the government has taken up this new line of thought, permitting older workers to remove themselves from the labor market, under the condition that they are replaced by a younger one, with the granting of a pre-pension.

This is a very significant departure from the overall prevailing doctrine of the obligation to work, which is at the basis of all Belgian social legislation. One is only entitled to benefits if one is willing to work but is prevented from doing so by a cause independent of one's own free will. Even to obtain the minimum of subsistence benefits, one must show one's willingness to be put to work (Article 6 of the act of August 7, 1974). This moral rule of obligation to work if one can, is disregarded only if the willingness to work of the older person hinders the employment of a younger one. So one must conclude that a principle of legislation, judged important enough to justify the denial of the minimum of subsistence, must give way to the more important principle of the precedence of the young over the old.

This marked preference of the legislator for the younger workers and particularly for the problems of the young unemployed (and these are generally identified with school-leavers) is of relatively recent date. In the 1930s, and in the recession of 1949-54, the attention of the legislator focused more on women, the handicapped, and the older unemployed. Only since the year 1968 does one see the appearance of the

young unemployed as a special problem group. In September 1968 and in June 1969 the National Employment Agency published two special studies on unemployment of young workers (R.V.A., De werkloosheid onder de jongeren, and Evolutie van de werkloosheid onder de jongeren, Brussel, 1968 and 1969), showing that in mid-1964 out of 1,000 workers under 25 years of age, only 5 were unemployed whereas this figure reached 30 by mid-1968.

This situation, alarming in itself, was doubtless aggravated by the revolutionary movement that was spreading among the young in 1967-68, known by the name contestation and culminating in the French "evenements de mai 1968" and in the "Ausserparlementarische Opposition" in Germany. This movement, in itself probably caused at least partly by the increased unemployment of school-leaving students, has greatly alarmed the authorities and attracted enormous attention on the part of the public, through the newsmedia.

The result is that the social legislator has overreacted to the problem of unemployment of the young, much as the public authorities have overreacted to their demonstrations in the streets. The Royal Decree of February 13, 1969, giving the right of unemployment benefits to school-leavers under 25 years of age, was the first and only exception to the rule that one must be a worker to be unemployed. For all other social groups, access to unemployment benefits was made more difficult in 1961, whereas access to such benefits was made extremely easy for the school-leavers--who were, after all, not an underpriviliged group. One is reminded of the attitude of Bismarck, who gave social security to the German workers, for fear of their socialist revolution.

This overreaction is apparent also in the new measures taken by the economic recovery act of March 30, 1976: probations and pre-pension. The probation rule is extraordinary in that it compels employers to engage and to pay young workers who apply for a probation in their firm, even though in Belgium the freedom of the employer to engage (and to dismiss) workers has always be a sacred principle. Employers can select and promote their workers as they wish, and can dismiss them

without naming a reason for it (H. Lenaerts, Inleiding tot het Sociaal Recht, Gent-Leuven, Story-Scientia, 1973, p.39).

There has been one previous attempt in the same sense, an act of April 16, 1963, imposing on all employers with at least 20 employees the duty to employ "a certain number of" handicapped workers. But this rule was never put into practice, the exact number of handicapped to be employed never having been specified. It is all the more interesting to note, therefore, that now the government wants to impose on employers the specific duty to take into their employ--be it only for a limited period of time--a specified number of young unemployed (1 percent of their personnel) as a supplement to current personnel, and even if the employer does not want to increase his personnel!

The part of the act dealing with pre-pension goes still further, by inducing the employers to replace their older workers with younger ones. The rule is that workers over 62 (58 for women) are eligible for unemployment benefits plus the pre-pension benefit, if they are replaced in the firm by a person from outside who is under 30 years of age.

Here the preference for the young over the older workers is most dramatically clear. Yet unemployment for an older worker is a much more severe problem than it is for a young one. The old unemployed loses all his prospects for re-employment. He loses the dignity of the worker, without gaining the dignity of the retired. Very often he has the feeling that after his many years of faithful service, his employer throws him away like an old shoe. The fact that under the pre-pension regime he suffers little material loss is irrelevant in this respect.

Why does the government consider the problems of the young unemployed more urgent than those of the old? The explanatory memorandum for the bill is very revealing on this issue: "This unemployment among the young not only prevents the financial efforts of the community in education from producing their economic results, but it also exerts a very bad psychological influence on the young unemployed. This discouragement that can affect young persons who feel themselves useless and redundant in this society, can have serious moral effects to be felt for many years. Moreover a whole generation must

be prevented from in large part becoming habituated to the idleness of unemployment." (Kamer van Volksvertegenwoodigers, Dokument 738, No. 1, 1975-76, p.3).

What the government wants to solve, at the expense of the old, are not the problems of the young, but the problems of society with the young. This becomes still more clear when one sees in the same memorandum the justification for the system of probations explained as follows: "The third beneficial effect will be that society as a whole will no longer be confronted with a large group of disappointed young people, who must, when unemployed, spend their energy elsewhere. This 'spending elsewhere' will not always happen according to the accepted rules." (Ibid., p. 4). It is in fact to keep the young away from the contestation movement, with its sharp critics of the production system and the work-values of our society, that this society wants to use all means to put them to work, even at the expense of older workers and their feelings.

The very fact that this is done in an inefficient way, sufficient to give employment to only a few hundreds of the 110,000 young unemployed (figure for September 1975, according to the same explanatory memorandum), shows that it is an emotional reaction. It reflects the feelings of the trade unions and employers, who are angry at the little groups of leftists causing unrest in the workshops (the two most important of these groups are known by the names of AMADA and RAL, standing for "All power to the workers," and "Revolutionary league of workers") and want something to be done to keep their young members and workers out of their ranks and away from their influence. This concurring demand from the unions and the employers appears to be the first and the true motive for the measures the government takes, as we have discussed them here.

Conclusion

The Belgian government has taken many measures in times of economic crisis in the field of social legislation with the aim of solving or reducing the problem of unemployment.

These measures tended to reduce not so much the number of unemployed as the number of unemployment insurance beneficiaries. This was done by trying to put them to work, by eliminating abusive demands for benefits, notably by people not really willing to work, and by shifting off people to the pension funds. At closer scrutiny, most of these measures appear extremely limited in scope and even totally inefficient in terms of reduction of unemployment. They seem to be a reaction by a fatalist government, giving in to the wishes of employers and trade unions where these happen to concur.

One of these points of concurrence is the aversion to older unemployed. In recent times, the "contestation" movement of the young has added another one: the reaction against leftist movements among students and young workers. The recent measures in favor of the young unemployed, directed against the older workers, seem to be directly influenced by this attitude. Not surprisingly, they are as irrational as the feelings that have inspired them.

Leuven, April 1, 1976.

THE NETHERLANDS' INTERDEPARTMENTAL COMMITTEE ON LABOUR-MARKET POLICY

by

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The Interdepartmental Committee on Labour-Market Policy (the ICA--Interdepartementale Commissie inzake het Arbeidsmarktbeleid) was set up, following a recommendation by the Socio-Economic Council (S.E.R.) in its report, approved in 1968, on the future institutional organisation of labour-market policy in the Netherlands. The introduction of the I.C.A. at departmental level to coordinate the labour-market policy of the government departments, fell logically into the sequence of events following the setting up of a semi-public, non-governmental advisory body under the Industrial Organization Act of 1950.

The Council report also projected the establishment of a non-governmental Employment Council as the main S.E.R. committee on matters relating to the labour market.

The activities of I.C.A. are to be related in the first place to the rather complex advisory procedure of the Employment Council, for which reason I.C.A. members also attend the meetings of this Council.

In addition to being thus more or less complementally involved in the activities of the Employment Council, the I.C.A. is also engaged more directly in advising the Council of Ministers incidental to policy proposals put forward by the various departments. The main task in this field of I.C.A. activities is to examine policy proposals on their effects on the labour market, and submit its findings together with the policy proposals to the Council of Ministers.

In 1973 the Cabinet Council expressed its wish to have the I.C.A. examine the annual National Budget--in particular where substantial increases or decreases in budgetary items are concerned, which may be considered of direct consequence to employment opportunities on the labour market. The following is a summary of the work of the Committee with regard to the National Budget.

Scope

The budget examinations conducted by the Committee take place, basically, along the same lines as the examination of the incidental policy proposals by the departments.

The objective is to inform the Cabinet Council at an early date of the consequences of increases or decreases in the most important expenditures proposed by government departments on the labour market. This is in order to facilitate amendment of budgetary proposals in the preparatory stage, should this be considered necessary.

Limitations

From the nature of the budgetary task set by the government (as well as technical possibilities to carry out this task), the I.C.A. is bound to operate within limits.

1. Investigations are restricted, in the first place, to government expenditure. Not because variations on the 'income-side' of the budget may not also exert influence on employment opportunities on the labour market, but in view of the fact that interpretation of these figures on 'micro-economic' scale is as a rule difficult.

   A 'macro-economic' approach with regard to budgetary details does not come under I.C.A. competence, but rests a.o. with the Ministry of Finance and the Central Planning Bureau.

3. Furthermore investigations are restricted to those items which are subject to a volume-increase or decrease, compared with the previous financial years.

   In effect the I.C.A. investigation is therefore a partial examination of each item in the budget. It offers the opportunity of comparison and may lead to adjustment of policy in favour of labour market development.

Methods

1. The first move in the procedure is the discernment of those items which are relevant. This takes place where possible as a rule on the basis of previous investigations and in consultation with the policy-making experts of the departments concerned.
2. The expenditure for these items is converted to the wage- and price-level of the previous financial year. Thus eliminating the inflationary element, comparison is then possible.
3. Exact volume-changes are calculated from these figures. The changes are then 'translated' into effects on the labour-market, expressed in man-years for employment.
4. The man-years for employment are calculated on the basis of a highly differentiated package of indices selected in consultation with a.o. the Central Planning Bureau, adjusted yearly and brought up to date with actual conditions.

   Essential in this operation is: disclosure of the wage-sensitive component in the expenditure and of the direct impulses on the labour market relative to each group of items.

Results

The findings of the Interdepartmental Committee on Labour-Market Policy are presented to the Ministers concerned, preferably well in advance of budgetary consultations in the Council of Ministers.

THE UNITED STATES MANPOWER SITUATION

Employment and Training Administration
U.S. Department of Labor
Washington

The monthly household survey indicated that total employment in the United States stood at about 86.7 million persons in April 1976, the highest level ever recorded. The civilian unemployment rate for all persons 16 years of age and older stood at 7.5 percent, equal to the highest monthly level recorded in any of the preceding postwar recessions, although down considerably from the postwar record high of 8.9 percent reached 10 months earlier. This paper will trace briefly the factors leading in to the 1974-1975 recession, its impact on the labor market, and the program responses made to it.

The U.S. Labor Market in Recession and Recovery

The economy reached its cyclical peak in the fourth quarter of 1973 with most of the signs of full employment and the unemployment rate reaching a low of 4.7 percent. Prices were rising at nearly double-digit rates, propelled by bottlenecks in many primary processing industries and poor crop harvests. The Arab oil embargo was expected to bring about a swift decline in activity, but although GNP in real terms began to decline, unemployment rose only moderately--to about 5.1 percent for the first half of 1974--and by August had only inched up to 5.5 percent. Meanwhile, total employment continued to rise, reaching its cyclical peak of 86.3 million persons in July 1974, as businessmen,

under the influences of 1973's shortages and inflation's impacts on accounting procedures, continued to accumulate inventories at record levels despite sales which were falling in real terms.

Thereafter, however, unemployment began to skyrocket, jumping 0.4 percentage points in the next month, standing at 7.2 percent by year's end, and reaching a recession high of 8.9 percent in May 1975 as 8.3 million persons were unemployed. Total employment had reached its nadir in March at 83.1 million persons--a decline of 2.2 million persons from the July peak.

The impact of the recession was widespread, but the sharpest declines occurred in manufacturing and construction. The impact of the oil embargo was evident in manufacturing, particularly in transportation equipment and in the primary/intermediate industries which that demand supports. Other high-priced durables were similarly affected, due also to the declines in real incomes accompanying the inflationary recession. The high rates of inflation in construction and the high interest rates (particularly during summer 1974 and thereafter) reduced construction activity drastically, and also slowed down the industries dependent on it. On the other hand, employment in medical and educational services and in State and local government continued to rise throughout

the recessionary period, as well as in mining (in response to the energy supply situation.)

Blue collar workers, since they are concentrated in goods-producing industries, were particularly hard hit. As businessmen stopped producing for inventories and as sales declined further, operatives especially felt the cutbacks in employment; craft workers were somewhat less affected. In total, blue collar employment fell by 2.3 million. White collar workers were much less affected by by the recession; a couple of small quarterly declines in employment were soon reversed and by the end of 1975 employment stood about 1 percent above the 1974 peak.

The recession also had somewhat differential impacts by different demographic groups. Adult men were very hard hit, with a total employment decline of 1.3 million persons; one quarter of this was in the 20-24 group, three-fifths in the 25-54 "prime" cohort. Adult women, on the other hand, were much less affected by the recession, partly because their employment was more concentrated in the services and clerical occupations. Teenage unemployment rates, which had been high even during 1973, rose to 16 percent during 1974 and to the 20 percent range during 1975. Black teenagers, who fared worst, saw their unemployment rates rise toward 40 percent during 1975. The same pattern held true for all

black workers, whose unemployment rates rose into the 14 percent range, as the historical 2:1 ratio between black and white unemployment rates remained roughly constant.

Other unemployment indicators underscore the seriousness of the 1973-75 recession. The unemployment rate for male household heads, which had been around 2 percent during the end of 1973, reached 5.5 percent, and the female household head rate, 10 percent. The number of job-losers nearly tripled, as four-fifths of the increase in total unemployment from peak to trough was due to increases in persons who had lost their last jobs. The duration of unemployment began to rise after the first quarter 1974 low of 9.5 weeks, to 17 weeks at the end of 1975. The number of persons classed as long-term unemployed (15 weeks or more), which averaged about 800,000 in 1973 and 940,000 in 1974, rose to a high of 3 million by July 1975 and remained essentially at that level throughout the remainder of the year. The number of "discouraged workers"--persons not participating in the labor force because they did not think they could find work--rose from about 650,000 in 1973 to a peak of nearly 1.2 million in mid-1975.

Signs of recovery began to appear in early 1975, such as reductions in the layoff rate and increases in rehires. Total employment began rising in March and nonfarm payroll

employment in July. However, progress as measured by the unemployment rate was slow as the labor force continued to grow, and the civilian unemployment rate remained at about 8.6 percent until November. It has since fallen a full point, and employment has risen by 1.5 million persons. Employment since March 1975 has risen in most sectors of the economy, with the exception of construction, which has remained unchanged over the recovery period at nearly 800,000 below its prerecession high. Manufacturing employment has risen by three-quarters of a million since July; in recent months, substantial gains have occurred in durable goods sectors, particularly transportation equipment and electrical equipment. On the whole, however, automobiles and housing construction have not performed their traditional functions of leading the economy out of the recession.

In the year that has passed since March 1975, the civilian labor force has grown by 2 percent, or over 1.8 million persons. At the same time, employment has risen by 2.6 million (3.1 percent). These totals, however, mask divergent movements among components. The adult male labor force, continuing its long-term trend, has risen slowly in response to job opportunities and population growth, but their participation rate has continued to fall. The participation rate of adult females, on the other hand, has

continued its upward trend, and their labor force has grown by 3.7 percent while employment has grown 4.8 percent. The numbers of blacks in the labor force and employed have grown quickly over the last year, largely rebounding from recession declines. Their unemployment rate has fallen from 13.8 to 12.5 percent as a result. The number of teenagers in the labor force fell during 1975 but has rebounded in 1976, although their unemployment rates remain at nearly 20 percent.

Taking a longer-term perspective on the economy's performance, it becomes apparent that employment and unemployment indicators give contradictory impressions. The ability of the economy to provide jobs for its citizens who want to work is perhaps best illustrated by the employment-population ratio (E/P). Over the whole postwar period, this ratio for total population of working age (16 and over) has varied within fairly narrow limits over the cycle. Its cyclical low has generally been a little over 0.55 and its high, nearly 0.58. The remarkable fact about the economy during the past 5 years pointed up by this index is that on the whole, although performance as measured by the unemployment rate has been dismal, more people are working than ever before. During 1974, for example, the E/P reached .581 for one quarter, the highest rate it has reached during the

postwar period. Yet the unemployment rate at this time was over 5 percent. The previous high of 0.580, attained during 1969, was accompanied by unemployment rates of less than 4 percent. The E/P stood at .565 during the first quarter of 1976, a level comparable to the 3-month high of the 1958-61 business cycle, when the unemployment rate was 5.3 percent.

Underlying this set of contradictory phenomena is the behavior of labor force participation rates for different components of the population. Women have become an increasing fraction of the labor force since the end of World War II, as have teenagers since the mid-1960s, as participation rates have risen (population growth has also been important in the case of teenagers). Throughout the postwar period, on the other hand, the adult male participation rate has declined. Consequently, the labor force, which had been 62.6 percent adult male in 1960, was 57.1 percent in 1970, and only 54.3 percent in March 1976. Driven by the trends in participation, the E/P ratios for these 3 main groups have followed the same general pattern. The female E/P ratio, for example, is at its postwar peak of 0.433 despite an unemployment rate of 7.3 percent.

An examination of these factors has led many analysts to conclude that the "full employment unemployment rate"

has been drifting upward. Unemployment rates for adult males have historically been well below total unemployment rates because of their more stable attachment to the labor force and to jobs. As the fraction of women and teenagers increases, the average unemployment rate for any set of economic conditions will tend to be higher. Thus, although the economy is producing jobs for more of the working age population than ever before, structural changes have tended to raise the total unemployment rate. The recent combinations of high unemployment rates and high E/P ratios tend to support this interpretation.

Policy and Program Responses

A. Unemployment Insurance. By design, the Unemployment Insurance (UI) system bears the initial brunt of recessions' impacts, particularly in the geographic areas which are hardest hit. Consequently, the pattern of the recession and recovery can be traced through this system, beginning with the initial surge of unemployment in automobile-related industries in early 1974. Insured unemployment, which averaged about 1.8 million persons per week during 1973, increased to 2.6 million during 1974 and reached a peak of about 5.6 million during May 1975. Benefit payments, which had totaled about $4.5 billion during all of 1973, reached $1.5 billion during April 1975 alone. By April 1976, the

number of persons receiving regular State benefits had fallen to about 3 million.

Regular UI benefits are paid up to 26 weeks in most States. Since 1971, there has been a program of extended benefits, half of which are financed by Federal funds, which is automatically actuated by both Federal and State insured unemployment rate levels. This extended benefit (EB) program was triggered on nationally in the week of February 23, 1975, allowing eligible exhaustees of regular benefits to extend their eligibility for up to another 13 weeks. The number of EB claimants reached 1 million in September 1975, but by April 1976 had declined to about 740,000.

The precipitous drop in the economy induced the Congress, in response to Administration proposals, to enact at the end of 1974 two temporary pieces of legislation to expand further the scope of the UI system. The Emergency Jobs and Unemployment Assistance Act of 1974 extended UI coverage (Special Unemployment Assistance, or SUA) until March 1976 to all persons who would qualify for UI benefits by virtue of their work histories but who worked in non-covered employment. A maximum of 26 weeks of benefits could be claimed. The Emergency Unemployment Compensation Act of 1974 extended the duration of benefits up to 52 weeks to

persons eligible to receive up to 39 weeks of benefits under regular and EB programs. Benefits under this program, called Federal Supplemental Benefits (FSB), were extended another 13 weeks in 1975 by the Tax Reduction Act. Both FSB and SUA programs were extended until March 1977 by the Emergency Compensation and Special Unemployment Assistance Extension Act of 1975, passed in June. That Act also extended the possible duration of SUA benefits to 39 weeks, and required that persons receiving FSB benefits be assessed by the employment security agency to determine whether or not they need job training; if so, and training opportunities are available, participation in a training program becomes a condition for receiving FSB.

Given the normal times to implement and publicize new programs, the FSB and SUA programs were just reaching full implementation at about the time the economy reached its low point in March 1975. Over the course of that year, nearly 2.7 million persons received FSB benefits totaling $2.24 billion. The FSB peak was reached during January, 1976 when 1.2 million persons were receiving benefits; since then, the number has declined by nearly 30 percent. Over 1975, SUA beneficiaries totaled 1.1 million, and they received $670 million in benefits. The number of SUA claimants reached a highpoint of 690,000 during July 1975 and by

April 1976 this number had shrunk to 292,000.

B. Employment and Training Programs. The basic framework for employment-related training and temporary publicly created jobs in the United States is provided by the Comprehensive Employment and Training Act, or CETA, passed in late 1973. CETA represents a radical departure from previous training legislation in that its basic mode of delivery is through some 400 State and local government "prime sponsors" who determine their own clientele and services mix, within fairly general guidelines. Although the basic thrust of the original legislation was toward providing employability development services to a clientele heavily weighted toward the economically disadvantaged segments of the population, the depth of the recession forced many changes in the program.

In outline, the services delivery components of the permanent portions of CETA fall under four titles. Title I provides for activities similar to those conducted under previous categorical programs (skill training, work experience, etc.), but with the specific mix determined locally. Title II provides for public service employment, also under local direction. Titles III and IV provide program responses for problems of unique national scope under national direction.

In addition, in December 1974, Congress added another Title (VI), providing for temporary public service employment, as an anti-recessionary measure. Title VI was created by the Emergency Jobs and Unemployment Assistance Act of 1974, the same legislation which provided the SUA coverage mentioned above. Enough funding was authorized to create about 260,000 jobs through 1975. However, when the depth of the recession became apparent, additional funding was appropriated to maintain the same level of jobs through January 1977. The Administration proposal to phase them out slowly over the succeeding 9-months is thus left pending determination by the next Congress and President next year.

The creation of Title VI public service employment was accompanied by a reorientation of the permanent Titles of CETA in the same direction. Title II, which is by nature a PSE title, but one intended to focus on the skill development of the disadvantaged and provide public jobs as a transitional vehicle to regular employment, moved in the direction of providing temporary employment for non-disadvantaged job-losers. The inherent flexibility of Title I was likewise used to create additional temporary employment slots, to the detriment of training opportunities. On the whole, enrollment in CETA became less and less

"disadvantaged" as the services mix favored PSE. Whereas only one-fifth of the original CETA appropriation for community manpower programs was designated for public employment, actual FY 1975 obligations for PSE were over 40 percent of all such funds, and FY 1976 may see nearly 70 percent of the funds devoted to that purpose. (These figures include Title VI amounts.)

A separate thrust has been undertaken during the recession to promote the summer employment of youth. Originally, under CETA, it was anticipated that prime sponsors would provide summer employment opportunities for disadvantaged youths out of Title I allocations. In 1975, separate funds were appropriated under Title III of CETA to create a categorical summer youth program. For FY 1976, funds were requested and approved as an urgent supplemental appropriation Act for summer job slots for approximately 900,000 youths. It is anticipated that prime sponsors will also create some similar job slots from Title I monies.

Summary and Issues

The United States presently finds itself in a vigorous recovery from the deepest and most prolonged postwar recession. The number of unemployed, which in May 1975 reached nearly 8.3 million, has now been reduced to about 7 million as the unemployment rate has fallen 1.4 points to

7.5 percent. Despite the fact that the present unemployment rate is as high as ever attained in a previous postwar recession, the number of persons employed is higher than ever before. The prospect for the next year or two looks quite good for continued economic growth and expansion of employment, although most forecasts do not predict that the unemployment rate will fall below 6 percent until the end of 1977 or later.

Employment and Training policy faces a number of challenges in the next several years, some of them caused by the recent recession, others by structural changes in the economy and its labor markets. The recession has pointed up the inadequacy of present systems of income maintenance, for example. While there is general agreement that 65 weeks of unemployment insurance benefits are too long--the insurance nature of UI is then attenuated beyond recognition, for one thing--the appropriate alternatives are by no means clear. Nonetheless, it is clear that better uses of unemployed workers' time must be found, and that mechanisms for retraining or other employment for the exhaustees of UI benefits--expected to number over 2 million during 1976--must be found.

It is also clear that CETA programs must be reoriented in the wake of the recession. The implementation of CETA

was overtaken and overwhelmed by the exigencies of the recession, so that the concept of decentralized and decategorized manpower programming cannot be said to have had a valid test. The task at hand is to direct resources now spent on temporary stop-gap employment schemes to provide job training in skills to be needed as the economy recovers.

Turning to longer-term trends, the growing proportions of women and teenagers in the labor market require efforts to smooth their transition into the permanent labor force and into stable employment so that the "full employment unemployment rate", which apparently has been drifting upward, can be brought down again.* The continuing tendency for the unemployment rates for black Americans, and especially black teenagers, to remain high above those for whites in most instances must be considered a part of this effort. A strongly recovering economy, with growing rates of employment and falling unemployment rates, provides the appropriate macroeconomic backdrop for the achievement of these objectives.

*(In the case of teenagers, this is a "medium term" problem since this age cohort will soon begin to shrink.)

Excerpt from OECD Occasional Studies, July 1975

UNEMPLOYMENT BENEFITS AND RELATED PAYMENTS IN SEVEN MAJOR COUNTRIES

Recent sharp increases in unemployment have focused attention on the nature and scale of benefits paid to the unemployed. These benefits, which are clearly of interest in a social context, also have a role to play as stabilisers of aggregate demand. This article describes the main features of the systems in operation in the seven largest OECD countries, and attempts to give an impression of their significance in macro-economic terms.

The countries covered have been selected on the basis of economic size, not in terms of the intrinsic interest of their benefit schemes. No conclusions can be drawn regarding the extent to which unemployment benefits help fulfil social objectives. This would involve consideration of many factors which lie outside the scope of the present article.

GENERAL SURVEY

Axel MITTELSTÄDT

This study was carried out in the General Economics Division. The author wishes to thank a number of colleagues and officials in national administrations for their valuable assistance; the material presented and any views expressed nevertheless remain his sole responsibility.

I. *Introduction*

Most OECD economies have a number of built-in fiscal stabilisers which come into play to moderate fluctuations of business activity. Among these are unemployment and short-time working benefits. The degree to which these transfer payments play a stabilising effect for a given fall in the input of labour is dependent upon a number of factors such as coverage, eligibility provisions, the duration of unemployment and the size of benefits.

Faced with the prospect of sharp rises in unemployment to levels unprecedented since the Great Depression, some countries began taking action, in late 1974 and early 1975, to improve income maintenance. This was primarily achieved by easing eligibility provisions, extending benefits beyond normal benefit periods and raising benefit rates, with in some instances increased payments for training and job creation programmes. Action has also been taken in some countries to raise contributions to unemployment insurance schemes, thus reducing their stabilising potential. Given the likelihood of continuing high levels of unemployment, further changes in unemployment transfer schemes in the course of 1975 cannot be ruled out.

Section II discusses the present structure of unemployment-related transfer systems in the seven largest OECD countries and their recent changes. Section III provides some indication of the change in transfer payments, as per cent of GDP, in response to a given change in the nationally defined unemployment rate. Section IV briefly puts these payments into macro-economic perspective.

II. *Unemployment-related transfer systems in seven countries*

As mentioned in the introduction, existing arrangements are receiving close review and are in the process of being changed. The description given below takes account, as far as available information permitted, of discretionary changes up to May 1975. In any one country, the system of unemployment-related transfers typically embraces a number of different programmes. For example, employees suffering from the effects of a lower level of aggregate demand may receive, in turn, short-time benefits, unemployment compensation and often, if the latter is exhausted, supplementary welfare payments which may be incomes-or means-tested. Hence, describing the systems of one or a number of countries in general terms will inevitably lead to some distortion. Nonetheless, an attempt has

been made to summarise some of their characteristics under the following broad headings:

— the extent of coverage and the effect of eligibility requirements;
— the duration of benefit;
— the average size of benefit;
— financing.

a) *Coverage and eligibility*

The size of total benefits depends on coverage by sector and type of employment, and the stringency of the eligibility requirements. The effective coverage ratio resulting from these two factors varies widely among countries. In Canada, the United States and Germany, the coverage of sectors is now nearly complete.[1] In the United Kingdom, the exclusion of the self-employed and married women at their option reduces the coverage to approximately 80 per cent.[2] In Japan, France and Italy, the coverage is much lower. For Japan, this reflects in part the industrial coverage, which does not include firms with less than five employees. In France, employees in the private sector are broadly covered, and since mid 1974, a special scheme applies to public sector workers ("non-fonctionnaires"); however, the substantial number of self-employed tends to reduce the coverage considerably. In Italy, employees in the private sector are widely covered by the general flat rate benefits, but, as in France, some important categories are excluded;[3] special benefit provisions apply to construction, agriculture and industry. In the latter two countries, as in the United States, the lower effective coverage ratio also results from the severity of eligibility requirements (see Table 1) and the structure of the labour force.

Eligibility requirements normally include a certain number of weeks' work, willingness to work or undertake training, reason for loss of employment and, in some cases, a minimum level of earnings; the most important constraint is normally the length of work before unemployment. The coverage ratio is reduced considerably in France by the large number of new entrants into the labour force who are unemployed, and in Italy and the United States, by the long period of insured employment required for eligibility.

Short-time benefits have been small in the past in France and Germany.[4] In Italy, payments for short-time work provide a partial compensation for foregone earnings up to 40 hours not worked per week. In the United Kingdom, the Employment Protection Bill, introduced in March 1975, contains provisions for short-time benefits; recent measures have also been taken to this effect in Japan. As a rule, eligibility requirements are less restrictive for short-time benefits than for unemployment insurance.

b) *The duration of benefit*

The average length of benefit also varies considerably within and among countries. In many, it depends upon the type of unemployment (i.e. short-time work or regular unemployment, temporary lay-offs or redundancy), the length of individual contribution and the age of the recipient. In addition, there is often a waiting period of between three days and two weeks before unemployment benefits can be received. In a number of countries, the claimant can benefit from supplementary welfare programmes when unemployment insurance has been exhausted; usually, however, a reduction of benefit would be involved.

In the United States, most individual states only give benefits for a period, varying between 20-36 weeks, with the period of maximum benefits depending on the length of previous covered employment.[5] In addition, "trigger" mechanisms come into play which lengthen the duration of benefit when the national or local *insured* unemployment rate, or the national or local unemployment rate, reaches certain thresholds.[6] Recent Government proposals include an extension of the maximum benefit period to 65 weeks for the period ending in June 1976.

A similar "trigger" mechanism exists in Canada, where the normal 26 week benefit period is doubled when the unemployment rate exceeds 4 per cent, a condition fulfilled since 1967. In Japan, also, the period of unemployment benefits reflects special considerations, the maximum length varying according to difficulties encountered in finding jobs; the average spell is, however, normally much less, due to the payment to employees of a re-employment bonus related to the amount of unused benefits.

1. In the case of the United States, this reflects the recent expansion of the system in December 1974 to include a further 12 million workers.
2. However, they would still be covered by supplementary benefits, if the need arose.
3. Public sector employees, the self employed, seasonal workers, apprentices, artists and certain categories of agricultural workers.
4. In 1974, they represented approximately 6 per cent and 13 per cent of transfers to unemployed respectively.
5. In the early 1970s, under "normal" circumstances 50 per cent of the beneficiaries exhausted their benefits before 26 weeks.
6. The insured unemployment rate is the number of recipients as a percentage of insured employment; the unemployment rate is the number of unemployed as a percentage of civilian labour force.

Table 1
Unemployment Transfer Systems: Coverage, Eligibility and Benefits[a]

Country	Unemployment insurance	Public assistance	Short-time benefits
Coverage in 1974/5[b]			
United States	95	—	—
Canada	99	—	—
Japan	45	—	
France	61	—	
Germany	93	—	—
Italy	51	—	—
United Kingdom	80[c]	—	—
Size of Benefits by mid-1975 (as per cent of gross earnings)			
United States	51[d]	—	—
Canada	67	—	67
Japan	60-80[e]	—	75-90[e]
France	40[f]	Flat rate	Flat rate
Germany	60[g]	51[n]	60[g]
Italy	Partly flat rate	80[o]	80[o]
United Kingdom	Partly flat rate	Up to a ceiling[p]	60-80
Maximum Benefit Period by mid-1975 (weeks)			
United States	65	—	—
Canada	51	—	—
Japan	..[h]	No limit	—
France	52[i]	No limit	52
Germany	52		26[r]
Italy	26[j]		52
United Kingdom	52[k]		—
Eligibility by mid-1975 (weeks of employment in period preceding unemployment)			
United States	..[l]	—	—
Canada	8/52	—	—
Japan	26/52	—	—
France	13/52	21/52	Hours not worked under 40 hours a week[s]
Germany	26/156	10/52	
Italy	52/104[m]	..	
United Kingdom	26/52[m]	Means tested	—

a) Excluding payments under private schemes.
b) Covered employment as per cent of total employment.
c) Estimate.
d) Estimate; benefit rates differ greatly between states.
e) The size of benefits is inversely related to earnings.
f) Excluding supplementary benefits for lay-offs caused by economic factors.
g) Estimate; benefits are equal to 68 per cent of *net* earnings.
h) Length of individual benefit period varies with length of insured employment and, in addition, with difficulties encountered in finding new employment.
i) For persons under 50 years; maximum benefit period rises with age.
j) For construction workers the maximum benefit period is 52 weeks.
k) The maximum period for the earnings-related supplement is 26 weeks.
l) Provisions differ greatly between states.
m) For the flat rate benefit.
n) Payments are equal to 58 per cent of *net* earnings.
o) Special payments by "Cassa d'Integrazione Guadagni" for loss of earnings caused by restructuring or crisis conditions in industry and small construction enterprises.
p) Ceiling set according to need.
q) Applicable also to workers who stopped working, but continue to be on the payroll (work suspension).
r) Maximum period can be extended to 12 or 24 months.
s) Up to 470 hours in the case of France; no ceiling in the case of Germany and Italy.

In France, the duration of unemployment insurance (ASSEDIC) increases with age, and after the age of 60, special benefits can be drawn until 65. The recently introduced supplementary scheme for conjunctural or structural unemployment gives additional earnings-related benefits for up to one year. In Italy, regular insurance benefits can be received for 180 days (360 for construction workers and 90 days for returning migrant workers); supplementary payments, made only in industry, can be extended by 60 days by the Government. In Germany and the United Kingdom, the maximum benefit period is approximately 52 weeks, although in both countries substantial welfare systems exist for those who exhaust benefits. In the United Kingdom, the higher earnings-related benefits end after 26 weeks.

c) *Average benefits*

An indication of the size of the average benefits in terms of gross earnings is given in Table 1. Probably the best compensation is provided in Canada, Germany and Japan, where benefits amount to between 60 and 80 per cent of earnings lost due to unemployment.[7] In the United Kingdom, a flat rate is paid for the full period with an earnings-related supplement for the first half year, although beneficiaries can also apply for supplementary benefits, where need can be shown; during the first

7. In Germany, benefits are calculated on net income and are not taxed. In Canada, they are calculated on gross benefits and are taxed. In both countries, benefits are limited by a ceiling. In Japan, the lowest paid receive the highest rate of income replacement.

26 weeks, average benefits are in the range of 40-60 per cent of gross income. In the United States, the average benefit is approximately 50 per cent of average earnings, but varies greatly between states, with benefits normally depending upon past earnings, up to a ceiling. In Italy and France, despite recent increases, benefits tend to be lower. In Italy, there is a low flat rate for all workers, with an earnings-related scheme for industry, construction and agriculture. In France, there is a flat rate payment under the "Aide Public" which is paid to all eligible unemployed; in addition, there is an earnings-related scheme paying approximately 40 per cent to begin with, declining over time. An additional programme for supplementary insurance benefits for unemployment for conjunctural reasons in industry could, after agreement by the Government, raise this to nearly 90 per cent; for those over 60, a special scheme comparable to early retirement will guarantee up to 70 per cent of previous income.

Short-time benefits are frequently higher than those for unemployment. This is particularly the case in Italy, where workers in industry receive 80 per cent of foregone earnings, and under the new programme proposed in the United Kingdom, where benefits will be 60-80 per cent, depending upon the salary and the number of hours worked. In France, short-time benefits have tended to be small. In Germany, identical treatment is given to insured unemployment and short-time work.

d) *Systems of financing*

Some characteristics of financing systems are summarised in Table 2. In all countries except the United Kingdom, contributions are made into separate funds dealing exclusively with unemployment or short-time work.[8] Most systems, the United States and Italy excepted, involve employer and employee contributions. These are usually a fixed percentage of wages up to a ceiling, which is raised in some countries in line with the rise in earnings. Some countries have recently increased contribution rates, partly in the context of the improvement of unemployment benefits. The sharpest rise took place in France, followed by Italy and Germany. In the United Kingdom, the national insurance component payable by employers was raised.

As a rule, special provisions apply in a cyclical downswing when transfer payments exhaust available funds. In Canada and the United States, special provisions allow additional financing, partly from the general budget, for exceptional measures to lengthen the benefit period. In Japan, approximately 50 per cent of payments come from general government

8. In the United Kingdom, unemployment insurance is only one part of the national insurance system, which also includes both health insurance and pensions. As a consequence, it is not possible to isolate the unemployment-related contributions.

Table 2
Statutory contributions to unemployment insurance schemes and public financing

	Contribution as percent of earnings		% Employers' share	Public financing
	1974	1975	1975	1975
United States	1.0	1.0[a b]	100	Subject to trigger unemployment rate. Special loan provisons for state funds when funds fall below a given level.
Canada	3.4	3.4[a]	58	Subject to trigger unemployment rate with general budget financing of the additional expenditure.
Japan	1.3	1.3	50	50 per cent of insurance benefit payments; part of short-time working benefit.
France	0.8	2.1[a c]	80	Public assistance payments and, subject to certain conditions, up to 90 per cent of privately financed component of payments for short-time working benefits.
Germany	1.7	2.0[a]	50	Public assistance payments and, subject to certain conditions, insurance benefits.
Italy	3.0	4.0[d]	100	Extraordinary payments of "Cassa d'Integrazione Guadagni".
United Kingdom	[e]	[e]	61	Supplementary benefits are paid for out of the general budget.

a) Subject to ceiling.
b) Estimate.
c) In July 1975, the rate of contributions was raised to 2.4 per cent from 1.8 per cent in the first half of 1975.
d) Insurance: 2-3 per cent; Special insurance for industry: 0.3 per cent; Contributions to Special Fund ("Cassa d'Integrazione Guadagni") 0.2 per cent; estimated contributions to Fund under new agreement 1 per cent.
e) Contributions form part of overall payments into National Insurance Scheme.

Table 3
Hypothetical unemployment rates underlying projections of transfer payments for 1975

	1974	Latest monthly rate in 1975 (seasonally adjusted)	Hypothetical unemployment rates		
			A	B	C
United States[a]	5.6	9.2 (May)	8.1	8.6	9.1
Canada[a]	5.5	7.1 (May)	6.0	7.5	9.0
Japan[b]	1.4	1.7 (March)	2.3	2.8	3.4
France[c]	2.3	3.8 (May)	3.6	4.1	4.5
Germany[d]	2.7	4.7 (May)	3.3	3.8	5.5
Italy[e]	2.9	2.7 (Jan.)	4.1	4.4	4.8
United Kingdom[f]	2.6	3.6 (May)	3.4	3.8	4.2

a) Number of unemployed as per cent of civilian labour force.
b) Number of wholly unemployed as per cent of total labour force.
c) Number of job seekers as per cent of labour force.
d) Number of unemployed as per cent of dependent labour force.
e) Number of unemployed as per cent of civilian labour force; the hypothetical rates for 1975 assume a rise in short-time work absorbing 40 per cent of the decline in the input of labour.
f) Number of unemployed (excluding school leavers and adult students) as per cent of employees (employed plus unemployed).

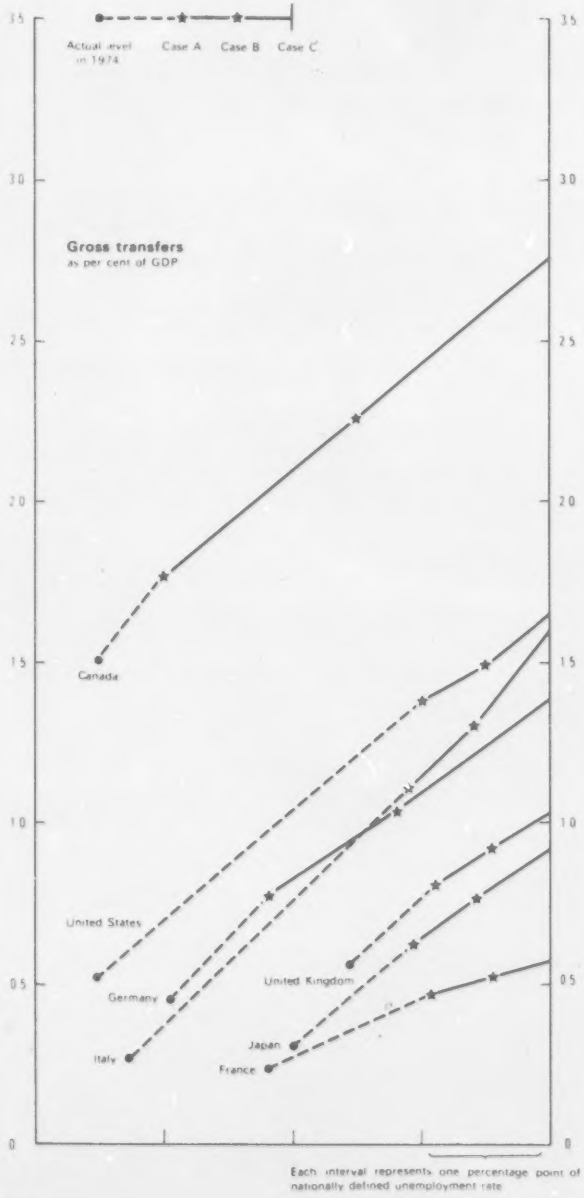
sources, while in Italy and Germany, some government contributions are allowed in special circumstances. More important, in terms of public financing, are the public assistance programmes which are often available to the unemployed after exhaustion of benefits. These exist in Germany, the United Kingdom, France and Italy, although in the two latter countries the size of the payments, and consequently the government contribution, is small.

III. *The responsiveness of transfer payments to changes in unemployment rates*[9]

It has been shown above that unemployment transfer systems differ greatly between countries in respect of coverage, eligibility, and rate and duration of benefits. An attempt is now made to capture the combined influence of these factors in determining the rate of unemployment transfer payments at various hypothetical levels of unemployment (Table 3). These hypothetical transfer payments are subject to a relatively wide margin of error. First, the level of unemployment and the speed of its increase have no precedent in the post-war period. As a result, both the number of unemployment beneficiaries in relation to total unemployment and the duration of insured unemployment may increase more than in earlier recessions. Second, some countries have recently modified their systems substantially, and past experience is therefore only of limited help. In addition, it is noted that the "elasticity" of unemployment transfers may change in the course of a

9. Excluding expenditure under job creation and training programmes. Discretionary changes introduced before June 1975 have been taken into account to the extent possible. The unemployment rates used are in all cases based on national definitions, no international standardisation having been attempted for this purpose.

RATE OF UNEMPLOYMENT AND GROSS TRANSFER PAYMENTS
as per cent of GDP



recession as a result of the exhaustion of insurance rights. The following presentation relates to the early stages of the recession, largely ignoring the possible effect of exhausted rights.

The stabilising potential of the seven transfer systems under review is suggested by the Chart. Gross transfers at mid-1975 benefit rates are expressed as a percentage of GDP and related to increases in nationally defined unemployment rates.[10] The steeper the line, the more responsive are transfer payments to higher unemployment levels.[11]

The stabilising potential of gross transfer payments is probably strongest in *Canada*, which combines high insurance coverage, easy eligibility provisions and relatively high benefits which are related to earnings. Broadly, a rise in the rate of unemployment by one percentage point would cause an increase in transfer payments of 0.35-0.40 per cent of GDP (Table 4). With no discretionary measures taken during the present recession, this effect is entirely generated by the automatic (built-in) stabilisers created by legislation adopted in 1971 (Unemployment Insurance Act). In *France*, the stabilising potential is weak, reflecting low coverage, a structure of unemployment marked by the large number of young unemployed persons, and some benefits which are based on flat rates. The effect of recent discretionary measures is small, as the greatly improved supplementary unemployment benefits are subject to restrictive eligibility provisions. As a result, gross transfers would rise by perhaps 0.15 per cent of GDP in response to a rise in the unemployment rate of one percentage point, as opposed to 0.12 per cent at 1974 benefit provisions.

The stabilising influence of gross transfer payments at mid-1975 benefit provisions is about the same (0.3 per cent of GDP for a rise in the unemployment rate by one percentage point) in the *United States*, *Japan*, *Germany* and the *United Kingdom*. In the United States, the responsiveness

Table 4
Increase in unemployment transfers associated with one percentage point increase in unemployment[a]
As per cent of GDP

United States	0.32
Canada	0.37
Japan	0.31
France	0.15
Germany	0.31
Italy	0.38
United Kingdom	0.29

a) The estimates refer to the responsiveness of gross transfers at hypothetical unemployment rates (on national definitions, see Table 3) on the basis of provisions in force at mid-1975.

of gross transfer systems has been considerably enhanced, at least for the duration of the programmes in question, by recent discretionary measures, including a temporary rise in both coverage and maximum benefit periods. In Japan and Germany, discretionary changes (including higher benefit rates in both countries, tax cuts in Germany and longer benefit periods in Japan) raised the "elasticity" of gross transfer payments above 0.3 per cent of GDP for each one percentage point rise in the nationally defined unemployement rate, reinforcing the effects of earnings-related benefits and the relatively high proportion of insured unemployment in total unemployment. In the *United Kingdom*, increases in the flat rate benefit and earnings-related supplement have led to a rise in the responsiveness of gross transfer payments; the proposed changes in short-time working benefits and redundancy payments would further increase responsiveness.

A special case is *Italy*, where the stabilising potential varies greatly with the distribution of the decline in the input of labour between short-time work and unemployment. A zero change in short-time work between 1974 and 1975 would involve a small stabilising effect of unemployment transfer payments, owing to both low insurance coverage and the flat rate character of most of the unemployment benefits. In contrast, a concentration on short-time work, for which benefits are relatively large, would imply a strong stabilising influence. The estimated breakdown between changes in unemployment and short-time work used here is based upon recent experience, but is subject to a wide margin of error.

Net transfer payments, adjusted for contributions and taxes paid on benefits, may for some purposes be more indicative of the stabilising influence at the macro-economic level. Normally, net transfers (i.e., gross transfers minus taxes and contributions) rise in relation to gross transfers in times of rising

10. For well-known reasons, unemployment rates are not comparable between countries. The horizontal axis of the Chart represents the rise in the unemployment rate from the 1974 level to the level assumed under Case C, i.e., the highest of the three hypothetical levels of unemployment in 1975.

11. In some countries, transfer payments under private schemes are significant (for example the United Kingdom, the United States and, to some extent, Germany). Private unemployment schemes are self-financed. A high level of unemployment usually results in the exhaustion of funds. At the same time, private severance allowances are paid on an increasing scale to induce workers to quit voluntarily. A lack of data prevented the inclusion of private transfers in the analysis, which impairs the comparison of the stabilising potential of unemployment transfer payments.

Table 5
Unemployment related transfers
As per cent of household disposable income

	Annual average 1970-1974	Difference between maximum and minimum
United States	0.7	0.4
Canada	2.1	1.4
Japan[a]	0.4	0.1
France	0.3	0.2
Germany	0.7	0.6
Italy	0.4	0.3
United Kingdom	1.0	0.5

a) Fiscal years.

unemployment, since job losers no longer make payments into the insurance scheme. This tendency, however, can be weakened or even reversed if the rates of contribution are increased in times of rising unemployment. In the recent period, France, Italy and, to a lesser extent, Germany have increased contribution rates, largely in connection with the improvement of benefits, thereby reducing the additional stabilising effect of the latter. In Japan and the United States, on the other hand, the potential stabilising effect of recent discretionary changes on the benefit side should come close to being realised. In Canada, both benefits and contributions have been raised by approximately the same per cent; the stabilizing effect of net transfers, which was already very large, has therefore remained unchanged.

Payments associated with unemployment also include outlays for training and job creation programmes, which have so far been excluded from the analysis. These payments covered a relatively small proportion of total payments in 1974, except in France and the United Kingdom. While most countries have taken action to step up spending on these programmes, the increases generally fail to keep pace with the rise in unemployment transfers and other benefits discussed in this note.

(Annexes omitted)

IV. *Some concluding remarks*

A thorough examination of the cyclical effects would require a full scale model for each country, in which the results of changes in the unemployment rate and the related transfers could be evaluated.[12] The magnitude of such a task, particularly in the present exceptionally severe recession, when programmes are being altered and expanded in many countries, is beyond the scope of the present paper.

The material presented in the preceding section suggests that, for an increase in unemployment (on the national definition) of one percentage point, transfer payments increase, on average, by about one-third of one per cent of GDP—equivalent to about one-half of one per cent of household disposable income. Although not negligible, this clearly falls far short of offsetting the deficiency in output and incomes which generated the increased unemployment: in general, a one percentage point increase in unemployment corresponds to a widening of the "gap" by several percentage points.[13] Thus, although section II *(c)* above indicates that—in terms of income maintenance for the individual unemployed person—benefits in some countries go a long way towards replacing foregone earnings, in terms of stabilisation of the business cycle they are small.[14]

In this connection, it may be of some interest to note the relatively small scale of unemployment transfer payments in relation to disposable income —and their relatively small variation—in recent years (Table 5). Nevertheless, recent discretionary changes would—as indicated earlier—tend to increase the responsiveness of benefits in the present recession.

12. See, for example, J. Helliwell and F. Gorbet, "Assessing the Dynamic Efficiency of Automatic Stabilisers," *Journal of Political Economy*, Vol. 79, July-Aug., 1971.

13. The gap needs to be thought of as the difference between the actual rate of growth of GDP and the potential rate.

14. In addition, since unemployment lags the cycle, the timing of the stabilising effect would be imperfect.

Overseas experience in the use of industrial subsidies

A WHITING

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I Introduction

If the purpose of this paper is achieved, it will be less controversial than its title - adopted for shorthand convenience – implies. For the aim of the paper is simply to examine government policy in six foreign countries in four fields which directly affect industry, namely investment incentives, regional development, selective intervention and research and development: the countries compared are France, Italy, Japan, Sweden, the United States and West Germany. In his recent monograph 'How Much Subsidy' Professor Prest examines the many and varied definitions of 'subsidy' and offers a definition in terms of government payments that directly affect relative prices in the private sector. On this definition all the measures listed in this paper would be classified as subsidies. Yet from the practical point of view, this definition is too broad in many cases. The subsidy clause in GATT, for example, has never worked in practice but there would be few who would regard all regional development incentives as infringing the spirit of clause 16. Most would regard regional development incentives as conforming to GATT as long as the incentive was no greater than the amount necessary to offset the additional cost of production in the development areas compared with the rest of the country. If, then, the appropriate definition of 'subsidy' to some extent depends on the purpose for which it is used, it may be more appropriate to regard this paper as a comparison of foreign industrial policies in the four areas mentioned.

The aim of this paper, then is to compare certain industrial policy measures to see if any conclusions can be drawn from foreign practice and experience which would be relevant to the UK. Two concepts nevertheless fall outside the paper's scope. On the whole no attempt is made in this paper to evaluate the degree of success of the specific measures. 'Success' can have several meanings. While a measure may achieve its immediate objective, it may not exert the desired overall effect. The desired immediate effects of industrial policies are rarely ends in themselves, so the measurement of a policy's success should involve more than the attainment of its immediate objective: lack of sufficiently detailed data has prevented the evaluation of even this latter limited measurement in most cases. Neither does the paper provide figures of government expenditure on all the measures either in absolute terms or as a percentage of gross domestic product. Such information would have been useful but was not always available. The difficulty of estimating a measure's cost to the government is difficult enough even where raw data is available, as can be seen from the analysis in the paper 'Value of investment incentives for manufacturing industry 1946 to 1974' by Melliss and Richardson.

Detailed conclusions concerning individual measures are incorporated in the text. By considering the industrial measures in total on a country basis, some interesting general observations can also be drawn.

The first general observation concerns the determination of national industrial policies. National industrial policies are determined mainly by two factors; the

particular set of national problems facing the governments, and the governments' assessments as to how the problems can best be overcome. Examination of the industrial problems of the countries studied reveals that the problems are much the same in all countries although their relative importance varies considerably; regional problems, for example, are far less important in West Germany than the UK, which in turn is more integrated regionally than Italy. If specific problems encountered were the main determinant of industrial policy, then these policies could be expected to be similar in the countries studied, albeit with different emphasis being placed on each measure. That this is not the case suggests that differences in economic and industrial policies are largely attributable to differences in economic and industrial philosophy. This observation is further supported by observed changes in specific national industrial policies over time although the underlying industrial problems have remained the same.

The second general observation concerns the relationship between economic growth and industrial policy. On the evidence of the countries studied, it is clear that differences in industrial policy are not capable, by themselves, of explaining the observed differences in national growth rates. Industrial policy measures must, of course, be evaluated against all their objectives which include such diverse entities as employment, regional balance and environmental considerations. Growth objectives may be a fairly minor consideration for many industrial policy measures: it is singled out here because there appears to be a tendency to believe that Britain's poor economic performance can be transformed simply by a switch in industrial policy. There may be social and other reasons why a particular type of industrial policy should be more acceptable in one country than another, but the evidence clearly shows that no one type of industrial policy can claim to be the sole generator of high economic growth. Examination of the table of growth rates (Table 1) shows that rates of growth have been achieved by countries with little central planning or public ownership (such as Germany and Sweden) as well as by those where planning and public ownership are of much greater importance (such as France and Italy). Moreover, detailed examination of industrial policy measures reveals no link between the nature and level of industrial and financial aids and the rate of economic growth: the West German economy, with little government intervention and low levels of assistance, has grown at about the same rate as France and Italy, where government intervention and financial assistance are high.

It is not surprising that differences in industrial policy are not capable in themselves, of explaining the observed differences in national growth rates. Growth is the manifestation at the aggregate level of all the changes in factor imputs and efficiency at the micro level. Growth is thus an extremely complex phenomenon and any search for a simple solution to poor growth will be self-defeating. Yet having identified the hindrances to higher growth, industrial policy measures can be vital in remedying the situation. Foreign practice and experience can be of help in formulating ideas and possible remedies, but it must be borne in mind that industrial policies are often built around and are dependent upon the social and industrial environment of the country concerned. Given different national environments, it cannot therefore be assumed that a successful policy in country X would be equally successful in country Y. UK industrial policy measures must be justified by their ability to solve the industrial problems particular to the UK, and not be based simply upon their apparent success in other industrialised countries.

II Industrial Philosophies

Before looking at individual policy measures, it is useful to outline differences in national industrial philosphy in order to put specific measures into perspective and give them a sense of proportion.

West Germany

The Germans describe their economy as a Social Market Economy, where industry is based on the 'competitive order' in which 'complete competition' prevails, not the economists' 'perfect competition' but the maximum possible competition (which may be something like 'workable competition'). The role of the state is not to stand aside, but interventions should be 'conformable', that is, they should maintain or increase competition rather than reduce it. Actions against monopolies and cartels would be conformable while subsidies would, on the whole, be non-conformable. Intervention should usually be general rather than selective (as between industries of firms), but where it is selective it should be such as to improve the working of the market system or to minimise the damage to it. Given this industrial philosophy it is not surprising that in a consideration of public ownership, it is the denationalisation of a number of publicly-owned companies that deserves mention. The most notable cases are Volkswagen and Preussag, the Prussian mining and smelting company. On the other hand, both the *Bund* and the *Länder* (Regional Governments) own shareholdings in a wide variety of companies, undertakings in which public authorities have a share accounting for 9-10 per cent of total enterprise turnover in 1973. But the shareholding is often very small, nearly always a minority shareholding. Coal mining is not publicly owned and the Federal Government involvement in the steel industry consists only of a majority holding in the third largest steel producer which accounts for about 10 per cent of national steel output. The largest shipbuilding group (Howaldtswerke-Deutsche Werft) is owned mainly by the Federal Government with a share of about 25 per cent held by the Land of Schleswig-Holstein.

Sweden

The 'Competitive order' is also fundamental in Sweden's industrial philosophy, although it is secured not so much through government intervention as through a liberal international trade policy. But the main aim of policy is undoubtedly to facilitate the adjustment of the economy to changing market forces and even sometimes to anticipate future market changes in order to avoid any conflict between the effects of economic growth and the country's main objectives. Economic growth is essential if income per head and the social services are to grow rapidly, but such growth is only acceptable if it is accompanied by full employment, a more even distribution of income and wealth and a balanced regional development (implicit in the two previous requirements). Unlike many other industrial countries, the main function of policy is therefore to help industry adapt to the changing competitive order as opposed to protecting industry from this competition. Such protection, it is held, would merely prolong the problems rather than solve them, since in the long term the industries concerned would not be able to afford the required wage level. Generally speaking, Sweden has relied on private enterprise and the invisible hand of competition to create industrial wealth; its socialist reputation stems from its policies to achieve what it is thought private enterprise cannot achieve, namely an even distribution of income and wealth between the entire population and smooth development. One would expect public ownership to be higher in countries where government intervention in industry is relatively high, but there seems no correlation between the degree of public ownership and social philosophy. Contrary to common opinion, for example, which stems from the knowledge that Sweden is a socialist country, the proportion of mining and manufacturing under public ownership in Sweden is very small by UK and West European standards. A sizeable proportion of public utilities are, however, in public hands. The proportion of publicly owned production varies sharply from sector to sector. In 1969 it was highest in iron ore mining (76 per cent.), followed by steel (12 per cent) and certain branches of the forestry industry (16 per cent. in paper and 28 per cent in fibreboard). Since 1970, all the state-owned companies working on the legal form of ordinary share companies, have been merged into one group of companies headed by a state-owned holding company, Statsföretag AB (National Swedish Enterprises

in the Swedish State-Holding Co). It currently controls only about 5 per cent of Swedish manufacturing and mining. The Statsföretag is sometimes described as the IRI of Sweden, although it is by no means as large, and arguably has a different role. There is, however, a larger public participation in banking in Sweden than in Britain.

United States of America

The free enterprise system also figures foremost in the philosophy of the United States, though with foreign trade accounting for only a small proportion of its GNP, its foreign trade policy is less liberal than that of Sweden and its policy measures tend to have a nationalistic slant. Nevertheless, the Federal State and local governments intervene, to maintain the competitive order, to increase industrial efficiency and to encourage private enterprise when normal market forces are failing to produce technologies deemed necessary to society. Public ownership is virtually non-existent with even many utilities, such as the railways, privately owned.

Japan

This dichotomy between internal and external competition has also been evident in Japan, though on a much larger scale. The Japanese government has always encouraged internal competition as a means of ensuring the survival of the fittest in domestic industry, but has also given considerable help to protect infant industries from excessive foreign competition where it regards a substantial home market as a necessary springboard for overseas trading. However, for many years it was considered that excessive competition (attributable in part to an excessively large number of small firms) caused deterioration in the financial position of enterprises and obstructed the progress of rationalisation. The governments during this period, therefore encouraged cartels and mergers. In the last two years, the Fair Trade Commission has become much more vociferous and active. The government has indeed been active in influencing the direction of industry. Elaborate formal arrangements exist for forward planning on the basis of data gathered from industry which have enabled mutually agreed and reasonable targets to be drawn up industry by industry. A successful and mutually beneficial relationship has emerged between government and business based on the uniquely Japanese system of 'administrative guidance', in other words discussion, concensus and subtle use of the carrot rather than the stick. As with the United States, public ownership is very small, being almost solely confined to utilities and about a dozen financial institutions such as the Japan Development Bank and the Export-Import Bank.

France and Italy

On the other side of the coin are France and Italy who do not believe fundamentally in this philosophy of free enterprise capitalism. In the case of Italy the rejection of this philosophy appears to be based on the belief that private enterprise, left to itself, would be far too slow in achieving the changes deemed necessary to the Italian economy. For France, its rejection is based on the French conception of the role of industry which is not primarily to make profit, nor specifically to create wealth, but to make France a greater, more independent country, capable of matching others of the same size and in particular of holding its own in Europe. To ensure that French industry is capable of sustaining France in the leading European role which her political leaders conceive should be hers is the main aim of French industrial policy; it is regarded as far too important to be left to the workings of market forces. Consequently, through a host of interventionist measures and national plans, France (and to a lesser extent, Italy) has confided to the government, the role of animator, coordinator and controller of industrial development.

This industrial philosophy has required a greater degree of direct state involvement in industry, particularly in Italy, than has been evident in most other industrialised nations. The electrical industry is the only truly nationalised industry in Italy,

although the three state-holding companies – IRI, ENI and EFIM – control varying proportions of the outputs of many important sectors. They have significant holdings in iron and steel, chemicals, textiles, petroleum, engineering and shipbuilding: on the basis of 1967 turnover figures they controlled 71 per cent, 65 per cent,* 40 per cent* and 25 per cent respectively of the first four of these sectors (* including Montecatini-Edison of which IRI and ENI acquired control in 1968). Together, the state holding companies account for about 40 per cent of industrial production. Public ownership is also more extensive in France than the UK, especially in the manufacturing and finance sectors where a particular feature is the existence of nationalised undertakings side by side with private companies; for example Renault, Banque Nationale de Paris. The first, second and fourth largest insurance companies are nationalised, yet the steel industry is still 100 per cent privately owned despite benefiting from substantial government aid.

III General Investment Incentives

The details of investment incentives shown at Table 2 indicate that the free depreciation of plant and machinery and the high initial allowance on buildings available in the UK are considerably more generous than the incentives available in other countries. The most common arrangement in the countries studied is for depreciation allowances for tax purposes to be related to asset life. This is the norm in France, Italy, West Germany, Japan and the United States. In West Germany depreciation for tax purposes requires a minimum asset life of six years. While in Japan, depreciation is in general based on asset life, the government has been looked to for tax concessions such as corporate tax reductions for high priority industries, and special depreciation rates on new plant and equipment required for modernisation. Until 1973, special depreciation write-offs granted to some priority industries permitted as much as 50 per cent of the cost of new plant to be deducted in the first year, with the remainder being spread equally over the useful life of the asset. However, in the last few years, government statements on tax policy revision are in line with other policy statements in calling for further expenditure to increase the quality of life and reduced emphasis on industrial investment. Among other things, the special depreciation measures were reduced to 25 per cent in 1973 and the tax reform plans for reduction, in equal instalments to zero by 1976. Tax incentives are now offered to encourage investment mainly on pollution control devices.

In the United States also, some industries, eg oil and natural gas extraction and ship building, benefit significantly from tax arrangements designed to make investment in those areas more profitable. But the main fiscal policies affecting investment are the Depreciation Guide-Lines and Investment Tax Credits. The Asset Depreciation Range (ADR) has formed the Depreciation Guide Lines in the US since 1970. It is based on broad industry classes of assets. For each asset guidance class, a range of years corresponding to the estimated average actual life of all assets in the group is prescribed by the revenue authorities. For each asset in an asset depreciation class, the tax payer selects a period within the asset depreciation range prescribed for that class. A tax payer using this method does not have to justify retirement and replacement policies, but he cannot change the depreciation period he has chosen for an asset after the initial choice. The Investment Tax Credits scheme has been used to influence the investment cycle, though its effectiveness has been the subject of considerable and inconclusive academic discussion. The scheme allows a 7 per cent credit against Federal income tax on all property with a useful life of over seven years. The credit was originally introduced in 1962, was suspended for most of 1967, repealed in 1969 and subsequently re-introduced with effect from March 1971.

In keeping with the belief in the operation of market forces and hence the inappropriateness in general of subsidies, the shortest fiscal period of depreciation for machinery and equipment in Sweden is five years; stocks-in-trade can be written off to 35 to 40 per cent of their value. For industrial buildings the depreciation allowance is up to 3 to 5 per cent per annum. There are no non-regional investment grants or other general investment incentives of the usual form.

Certain features of foreign practice in this field are worthy of special note. First, a number of countries use their investment incentives to discriminate in favour of certain activities, and especially R & D (see R & D section below). Leaving on one side the question of whether R & D should in fact receive special support, it is doubtful whether this is the best method of R & D support. Because there are serious difficulties in defining R & D, tax incentives will probably involve support for rather doubtful activities and may encourage firms to devote resources to finding ways of increasing their tax allowances by reclassifying their activities. Moreover, since tax incentives relate solely to capital expenditure, they would appear to introduce a bias in favour of capital intensity in R & D whereas much development work is labour intensive. Finally, given an almost total ignorance of the elasticity of the R & D function, there must be considerable doubt about the effectiveness of this sort of general measure in stimulating sufficient additional R & D to offset the support to R & D that would have been done in any case.

Another feature of interest, and one which might horrify a UK audience, is the recent 11 per cent. investment tax introduced in Germany (using the VAT system) on contra cyclical grounds[1]. During the post-war period, Sweden has also employed an investment tax (of similar magnitude) in some periods of inflation (1951 to 1953 and 1955 to 1957). One would certainly expect a tax rate of this magnitude to have some effect on the timing of investment over the cycle, provided that the tax was not thought likely to be retained for very long.

Sweden has also experimented with another device for reducing the instability of the investment cycle – the Investment Funds Scheme, whose day to day running is the responsibility of the Labour Market Board. The Investment Funds Scheme is not regarded as a method of industrial subsidisation or even as a means of stimulating investment that otherwise would not take place. Rather, its main purpose is to even out cyclical variations in production and employment by making it both profitable and possible for private industry to maintain a stable level of employment, even in periods of slack, for 'eligible construction works, to produce or procure necessary machinery and equipment, and, to some extent, to produce goods to be used when business prospects improved'. Briefly, the system is designed to distribute investment evenly over the whole business cycle in order to eradicate cyclical unemployment.

The Investment Funds System was inaugurated in 1938 and has formally existed as an integral part of Swedish contra-cyclical policy for over 35 years. The basic mechanics of the system are simple. In years when business is flourishing, firms may (the scheme is completely voluntary) set aside a certain share of their gross profits free of tax to an Investment Fund, thus helping to curtail current investment. Conversely, during periods of recession, the funds can be released by the Board or the Government to secure a net increase in the level of employment. The success of the mechanics rests on the benefits of released Investment Funds being sufficiently attractive to induce firms to comply with stipulations concerning especially the timing of investment projects. To make the system attractive, each firm is allowed annually to set aside to an Investment Fund a maximum of 40 per cent of its pre-tax profits. Of this 40 per cent, 46 per cent has to be deposited in a blocked Central Bank account, this figure – 46 per cent – being set a little below the company taxation rate in order to make Investment Fund appropriations more advantageous than

[1] West Germany has, subsequent to the writing of this paper, introduced a contra-cyclical investment bonus of 7.5% on approved orders for capital equipment placed between 1 December 1974 and 30 June 1975.

taxation. The accumulated Investment Funds can be released in three different ways:

(a) Five years from appropriation, 30 per cent of the appropriation may be used freely by the firm for purposes specified by the legislation;

(b) Firms can be required to use their funds in a specified way;

(c) Firms can be granted permission to use their funds on application, provided that certain requirements from the labour market authorities are, or will be fulfilled. Moreover, Investment Funds can be released generally or limited to specific sectors of the economy or geographical areas (special releases). The permissible uses of released funds mentioned under (a) comprise:

(i) investment in construction work
(ii) in machinery and equipment
(iii) a temporary increase in inventories.

With an additional reduction of taxable income (investment deduction) amounting to 10 per cent of funds actually used in compliance with the conditions stipulated by the labour market authorities, the Investment Funds System is equivalent to free depreciation plus a 10 per cent investment allowance. In order for the system to operate in the UK, which operates free depreciation generally, therefore, further incentives would need to be given to make it attractive to firms.

The Swedes believe the Scheme has functioned effectively. No detailed analysis of its effectiveness has been carried out by the Department of Industry but the favourable Swedish comments are given support by some work the Department has recently completed on the instability of the business cycle. Measuring the instability of the business cycle by the average percentage deviation per quarter of actual manufacturing output from trend, the study showed Sweden to have one of the most stable cycles of all the major industrialised countries.

IV Regional development

Regional problems differ both in severity and in nature between countries. Italian policies, for instance, have had to devise ways of developing the southern half of the country, which is an area with many of the characteristics of an underdeveloped country. In West Germany regional problems have arisen in certain rural areas and in the peripheral areas along the border with East Germany. Neither of these countries has suffered to any great extent from structural problems of an industrial kind, which have been among the main causes of Sweden's and especially the UK's regional problems.

It is hardly surprising, therefore, that Tables 3 and 4 reveal considerable differences between the intensiveness of the regional policies of the countries under study. A glance at these tables should be enough to demonstrate that the European countries (and particularly the UK and Italy) are much more active than others in this area. US regional policy has been extremely limited. The great bulk of federal development appropriations goes in grants-in-aid to State and Local Governments for improving the infrastructure (education, road building, hospitals etc) to make the the problem areas more attractive to industry. The amount of federal development funds used specifically for business loans is very small. Some additional help has been given through manpower retraining and also through public procurement. Japan, until recently very inactive, has been increasing its regional support fairly rapidly. Her regional problems stem basically from the imbalance created by great concentration of population and economic activity in the Pacific Coast belt.

Of those countries with fairly active regional promotional policies, Japan and Sweden appear to place the greatest reliance on non-discretionary measures, assistance in Japan being selective only in the sense that specific criteria on employment

and investment have to be met in order to receive support in the form of cheap loans and favourable tax treatment. In the UK too the emphasis is on non-discretionary measures which account for about three-quarters of our expenditure on industrial incentives. Similarly for Sweden. In Italy and France the balance seems to be in favour of discretionary measures, as it also is in Germany where expenditure on discretionary measures is about two-thirds of the total. There are some grounds for thinking that discretionary measures may be more cost-effective since they concentrate support on marginal activities.

Among the non-discretionary measures, accelerated or special depreciation are fairly common. France operates a 50 per cent first year depreciation while West Germany, in the zonal border area only and in addition to normal depreciation, allows 50 per cent. depreciation for movables and 30 per cent for immovables in the first five years. Special depreciation is also automatic in Japan. In Sweden depreciation loans are provided for investment in buildings and machinery. Investment grants, of the form operated in the UK, form part of the regional policy of West Germany and Sweden, although the level of grants is much lower. In Germany, tax-free investment grants are paid at a rate of 10 per cent. (reduced to 7.5 per cent under the stabilisation law) for investment for the establishment or enlargement of industrial plants in the border, rural and Saar coal mining areas, provided that these investments meet certain specified criteria, the most important of which is that sales should be mainly outside the region. In Sweden investment grants are subject to a maximum two-thirds of total investment costs.

There are a host of other non-discretionary measures including cheap loans and exemption from certain taxes in Japan, reductions in labour costs through reduced social security payments in Italy, and grants to local authorities to improve infrastructure in the USA and Japan. Sweden, in particular, offers a multitude of non-discretionary measures to firms undertaking industrial or related activities or to firms providing services for industry. Location grants or location loans are provided for investments in buildings and machinery. Location grants are fixed at a maximum of 35 per cent (50 per cent in special cases) of the total investment cost in the Outer Aid Area, and in the Inner Aid Area can be increased to 65 per cent in exceptional cases. Government guarantees are provided on loans for operating capital for regional development purposes, equal to 50 per cent of the liquid assets required during the initial stage of a new or intended enterprise. In addition, the government grants reimbursement of certain costs connected with the transfer of operations to the development areas, such as the removal of machinery. Since January 1971, a transport subsidy is available in the form of a freight discount up to 35 per cent of the costs of transporting certain types of finished product to their markets; the discount varies with distance and location. Assistance is also provided towards the training of new employees. During the first six months a new employee's training grant of Kr 5 per hour per employee is paid; or, as an alternative, Kr 10 per hour can be paid over one year to a concern provided that the firm undertakes to provide training of the same type and quality as that available at the Training Centres. In the Inner Support Area only, employment premia are payable on condition that firms abide by collective wage agreements. An employment grant is given for each worker employed for a whole year where this represents an increase in employment over the previous year. The amount payable for the first year is Kr 7,000, and if the increase is maintained, grants of Kr 7,000 and Kr 3,500 respectively are paid in the second and third years.

It should be noted that there is some tendency, although not perhaps a very marked one, for non-discretionary measures to have rather more selectivity built into them in some other countries than in the UK.

Turning to discretionary measures, it is noteworthy that discretionary industrial assistance is not given in the USA, Japan and Sweden but is a very prominent feature of Italian and German regional policy. The Industry Act gives wide powers in this respect in the UK but projected expenditure is relatively small in relation both to RDG's and to German expenditure from GA funds. The Germans, and to a lesser extent the Italians focus their expenditure on growth centres: in Germany there are over 300 of these and, with policy having been fairly successful in stimulating their industrial development, the intention of the Federal government is now to select new centres in the older industrial areas where the decline of traditional industries is now posing some problems similar to those faced by the regions in the UK. Discretionary assistance usually takes the form of grants. The maximum assistance permissible from public funds varies, with the category of the growth centre, from 9 per cent to 22.5 per cent of investment costs.

In Italy a wide range of discretionary incentives is offered to industry to invest in the Mezzogiorno. These incentives include:

(a) a 10 year income and profits tax holiday;

(b) a 50 per cent reduction in turnover tax on the purchase of capital goods and building equipment;

(c) capital grants for 7 per cent to 35 per cent of the total (plant, machinery and building) cost of the project, depending on the type of project and size of firm;

(d) cheap long-term loans for 35 per cent to 50 per cent of plant, equipment, building and inventory costs, with provision for a further 10 per cent for equipment produced in the Mezzogiorno;

(e) reductions (50 per cent) in railway and sea freight rates and a 50 per cent reduction in the tax on electricity consumption;

(f) a 10 per cent reduction in company social security contributions. (This saving amounts to about 1 per cent of the wage and salary bill.)

Probably the most important of Italian discriminationary measures, however, is the obligation imposed on the Instituto per la Riconstruzione Industriale (IRI) to place high proportions of their new (80 per cent) and total (60 per cent) investments in the Mezzogiorno. The ability to use the state enterprises in this way may well be one of the main advantages of this type of organisation. While no assessment of the effectiveness of Italy's regional policy can be made here, the conditions imposed upon IRI seem to have been fairly effective. It is true that the ratio of per capita income in the South to that in the North has remained at around three to five throughout the post-war period. But this constancy does not necessarily indicate failure: given Italy's rapid post-war growth, it is quite conceivable that without extensive support the South would have fared much worse. A factor helping to maintain per capita income in the South has been the substantial rate of emigration – averaging around a quarter of a million per annum during the 1960s. There has also been a tendency for development in the South to be rather capital intensive, and improvements in transportation have subjected some local industries to strong competition from firms outside the Mezzogiorno with the result that many smaller firms have found themselves in difficulties. But the economy of the Mezzogiorno has become increasingly diversified and certain centres (especially Taranto) have witnessed considerable industrial growth.

Dispersal policies are operated in several countries, although the UK IDC system is probably the most comprehensive of the instruments available in the countries studied. The Japanese Government can only exercise legal control over industrial building in certain metropolitan areas, although they are contemplating levying new taxes on firms remaining in urban areas. In the Permis de Construire, France possesses a similar instrument to the IDC's and can levy taxes on new building in the Paris area. In Italy there are provisions for fines where investment is made in

congested areas: in practice, however, it is virtually impossible to invest without the approval of CIPE, the Interministerial Committee for Economic Planning.

One of the most interesting aspects of foreign regional development policy is the stringent conditions laid down by many countries which must be met to qualify for regional assistance. This is in marked contrast to the more 'informal' approach adopted in the UK. In Sweden, for example, assistance is only given to projects that are expected to lead to permanent employment and a sufficient level of profitability. Employment grants are restricted to workers employed for a whole year where this represents an increase in employment over the previous year. In Japan, specific criteria on employment and investment have to be met in order to qualify for assistance. In Germany, grants are only available if the project fulfils specified criteria, the most significant of which is that the resulting output should be sold primarily outside the region. This seems a very sensible criterion since it means that support is not likely to be given to projects which merely reallocate local employment between competing firms.

V Selective intervention

Table 6 shows that there is widespread government support for the so-called advanced technology industries, with support especially heavy for the space and nuclear industries in virtually all countries. The aircraft and computer industries receive rather more support in the EEC than in the non-EEC countries shown in the table. The methods of support do not vary significantly between countries, and the motives also appear to be much the same. The Germans, for instance, see these industries as 'key sectors of decisive significance for the whole of the economy'. It is argued that German companies cannot afford the development costs or bear the risks without support from public funds. Aerospace yields substantial spin off and computers and nuclear energy have, or will have, important effects on productivity in other sectors. (The last of these arguments entails the common confusion between gains from production and use). As in the UK, it seems unlikely that the benefits can justify the high support costs that have been incurred in some of the countries under study.

Comparisons of support for other industries cannot be taken very far on a sectoral basis without much more information than is available since such intervention generally consists of action to deal with specific problems – a firm's insolvency, for instance – rather than action of an industry-wide character. Table 7 gives some details of non-AT assistance.

A sector that has received support in many countries is the shipbuilding industry. Subsidised export credit is provided in most countries and is the subject of an OECD agreement. Some countries such as the UK and Germany also provide assistance for modernisation, rationalisation etc. Taking all the quantifiable measures together, the UK appears to be among the countries offering the greatest support in relation to output. The scale of support is also high in France and Italy, while in the USA, Sweden, Germany and Japan, support is less.

Among the other industries receiving support, German assistance to the oil industry is noteworthy since this is a somewhat unusual sector for a Government to assist. The support, which appears to be given on security of supply grounds, is intended to assist the small and somewhat fragmented oil industry to develop its own sources of supply of crude oil so as to increase its competitive strength. To this end support has been provided in the form of loans for collaborative oil field exploration (on a no-oil no-repayment basis) and grants for up to 30 per cent of the cost of obtaining concessions or participating in joint enterprises. These measures have

not resulted in any commercially exploitable discoveries to date. The Japanese oil industry is supported in a rather similar way.

Otherwise, it is more illuminating to compare selective intervention in terms of differences in the institutional arrangements and in the methods of support adopted; there are interesting contrasts in these respects. In the UK, USA and Sweden, the preference has been for direct state involvement in selective assistance, although the picture may be changing somewhat in Sweden with the creation of Statsföretag. In France and Italy, on the other hand, para-statal organisations have been the main instrument of intervention. Another interesting Italian institution is GEPI which was formed in 1971 to take over and transform companies believed to be viable in the longer term but suffering from acute short-term difficulties. The intention is that GEPI should sell off its holding once its task of transformation has been completed. Although it is too early to attempt an evaluation of GEPI's operations, the performance of GEPI's fifty or so companies is said to be improving in most cases and a few have already been returned to private ownership.

In France there is the IDI (Institut de Développement Industriel), set up in 1970 along the lines of the former IRC in the UK. It is endowed with a mixture of government and private sector funds to enable it to provide capital to efficient companies whose expansion is being inhibited by difficulties in financing, and to promote restructuring in sectors of particular concern to government, eg machine tools. Additionally, IDI is occasionally called upon to find a 'French solution' when an unwanted foreign takeover bid is made for a French company.

A major difference in the methods of selective intervention in the countries studied is the greater emphasis placed on assisting small and meduim sized firms in some countries compared with the UK. This is the responsibility specifically charged to the IDI in France and to KFW (a state banking institution) in Germany. In Italy it is an important aspect of the activities of GEPI and of IMI, which is responsible for administering a fund for industrial restructuring. Although the Bolton Report's conclusion that in the UK small firms do not suffer from inadequate sources of finance, might be used as an argument against any special measures to support them in this country, it can also be argued that postwar increases in concentration pose a threat to competition (though increased international competition works in the opposite direction) and that a substantial small firms sector is a useful counter-weight to the market power of the larger firms. One might thus regard support for small and medium sized firms as being a part of competition policy.

VI Technical development and scientific research

'Research and development' as it is commonly referred to, comprises a set of heterogenous activities, which unfortunately are traditionally grouped together. Separate examination of each activity type would perhaps lead to a better understanding of this form of government assistance. The classification of R & D activities varies between countries and even between firms. But market and behavioural research is not included in R & D support, although they may be of greater importance to growth than pure and so-called applied research.

The case for supporting R & D is far from clear cut. Some proponents of R & D support, argue that R & D output has certain good public characteristics and frequently suffers from limited appropriability. Hence, while society requires maximum use of R & D results, the incentive to private investment in R & D depends on the ability of the investor to retain control over their use. Varying degrees of opposition to R & D support can be discerned. At the mild end of the opposition scale, it is pointed out that the results of R & D will in some cases not be of use to others (eg

because of product differentiation) and there will be other cases where R & D may yield results of private but not social value. Arguments for supporting R & D from public funds should therefore rest on a view that the good public characteristics outweigh the private benefits; but there is no way of demonstrating that this is, in fact, the case. This mild opposition argument seems very weak on several grounds. First it is possible in many countries to separate support given for pure research, the results of which become available to everyone, and support for technical development, the benefits of which are confined primarily to the firm undertaking the development work; (the status of so-called 'applied research' is obscure). But second and more important, does it matter if the 'private' benefits outweigh the purely social? If R & D is deemed to be a catalyst to economic growth there would be strong grounds for support in cases of insufficient private R & D activity: this line of argument has been behind the policy of investment grants and incentives.

The strongest argument against the support of R & D is that it does not stimulate economic growth. There is ample evidence to show that the performance of UK high technology industries receiving government support for R & D has not been any better than such industries not receiving this support. On reflection, it is not surprising that R & D expenditure and economic growth are not closely correlated. R & D is supposed to exert its impact on economic growth through technical change yet there is little direct connection between individual acts of invention and advance in scientific knowledge brought about through research. Activities which produce natural science and those which produce useful industrial hardware are very different one from the other. There is, after all, a very substantial difference between knowing how to do something and being able to put it to a commercial use and then to be able to do it at an appropriate cost. This would suggest that effort should be concentrated on technical development rather than pure research, as is the case in Sweden. Even so, this technical development must be geared to viable commercial projects; thus suggesting that support for development work would benefit from greater selectivity. Finally, it should be remembered that R & D is not the only basic work done to produce new products. Design and market research are often vital and are normally not included in R & D spending.

Nevertheless, support for R & D is general in the countries studied (see table 5), although the amounts of assistance vary considerably. Total expenditure on R & D in Sweden is fairly low, only 1.6 per cent of GNP in 1971 compared with 2.6 per cent for the USA, 2.3 per cent for the UK, 2.1 per cent for Germany and the Netherlands, 1.7 per cent for France and 1.5 per cent for Japan. Government expenditure on R & D as a percentage of GNP in 1969 was highest in the USA, 1.6 per cent, followed by the UK, 1.2 per cent, France, 0.9 per cent, Germany, 0.7 per cent, Sweden, 0.5 per cent, and Japan, 0.2 per cent. The high US figure is accounted for by R & D support to advanced technology industries which is the most important form of government assistance to industry in the USA. The similarities of R & D policy are greater than the differences, eg special tax treatment of R & D expenditure, but the differences are not without interest. Of particular interest are the NEDC, the IMI fund in Italy and the French tax treatment of profits from licenses.

Favourable tax treatment of R & D expenditure is operated in France, West Germany, Japan and the USA. In France 50 per cent first year depreciation is allowed. Special allowances are available for investment expenditure incurred exclusively for R & D in Germany. In addition to the standard allowance, firms may write off in the first year 50 per cent and 30 per cent of machinery and building costs respectively. The remainder would then be depreciated on a linear basis over the asset's standard life. In addition there is a 10 per cent investment subsidy available for all investment for R & D qualifying for accelerated depreciation. Favourable tax treatment is the government's main method of helping private sector R & D in Japan. Total R & D costs can be deducted for the year in which they are

incurred, there is 95 per cent depreciation in the first year for equipment for research, and subject to approval, one third of the cost of equipment purchased for putting the results of research to use can be written off in the first year. In line with the recently increasing emphasis on pollution control in Japan, the Ministry of Finance has instituted a pollution tax reserve which entitles manufacturing firms and utilities to defer taxes for three years on 3-6 per cent of current sales revenues, if invested in qualifying pollution control equipment. This reserve becomes a permanent source of cash for a growing firm. In addition the government permits immediate write-off of 95 per cent of R & D expenditure on pollution control. In the United States, R & D expenditure is deductible in the year incurred.

Of the differences in R & D policy, the NRDC has the longest history and has been adopted in some respects by Japan in its National Research and Development Programme. The NRDC was set up as a public corporation in 1949 with the function of developing and exploiting inventions made in the public sector (Independent Research Establishments, Universities etc) and of promoting the commercial exploitation of worthwhile inventions made by private individuals or companies. Although much activity was expected to stem from this institution, its scale of operation has in fact been rather modest suggesting that there are very few commercially viable inventions that are not carried through to the development stage because of a lack of finance. This impression is strengthened by the record of those inventions which NRDC has supported, which, overall, seems rather poor. This is true both of private sector and public sector inventions. Among the latter only Cephalosporin has been a significant revenue earner.

The Italian IMI fund seems in some respects rather similar to NRDC in objectives and methods in that it too was established to provide finance (mainly in the form of cheap loans) for private sector R & D. IMI is a public sector bank but the majority of its business is nevertheless on a strictly commercial basis. It therefore has considerable financial expertise with which to back up its non-commercial activities, such as the state-funded R & D lending. IMI, however, cannot take the final decision on spending from the fund; it can only make recommendations to CIPE. It therefore seems likely that IMI's R & D activities are both more commercially orientated and more politically controlled than NRDC activities. One of the requirements imposed on IMI for administering the fund is that 40 per cent of its lending should be for projects in the south of Italy.

Finally, a method not apparently tried in other countries for encouraging the dissemination of the results of R & D is the French exemption from tax on profits from licenses.

Table 1 Industrial growth rates 1955 to 1973 (% per annum)

	West Germany	*UK*	*USA*	*France*	*Italy*	*Sweden*	*Japan*	*Belgium*	*Holland*
Total industrial production	5.9	2.8	3.4	6.1	7.1	5.7	13.8	4.3	7.1
Mining & quarrying	2.4	1.3	2.5	2.2	4.7	5.7	6.2	0.8	7.5
Manufacturing	6.1	2.9	4.3	6.4	7.2	5.6	14.2	4.9	6.7
Food, Drink, Tobacco	5.8	2.9	3.9	na	5.6	3.9	9.9	3.9	6.0
Basic Metals	4.1	1.3	2.9	4.7	6.8	6.3	14.5	4.0	8.9
Iron & Steel	4.0	0.9	2.1	4.3	7.2	6.4	14.4	na	na
Non-ferrous metals	5.4	2.3	4.5	5.9	4.1	6.2	14.7	na	na
Metal Products	6.0	2.9	4.4	7.0	7.3	6.7	17.4	5.2	6.4
Transport equipment	7.2	na	3.8	7.5	9.0	6.6	17.2	na	na
Textiles, clothing & leather	4.8	2.0	3.6	4.7	4.9	3.8	9.6	3.9[A]	4.5
Chemicals, Rubber, Coal & Petroleum Products	8.6	4.7†	6.3	7.4	9.1	6.4	14.3	6.3	8.9
Other manufacturing	5.8	3.5	4.2	6.0	7.6	5.6	13.0	4.9	6.7
Gas, Electricity & Water	7.3*	4.6	6.1*	7.2*	6.7*	na	12.6*	6.2‡	9.4

* Excludes water
† Excludes rubber – included in other manufacturing
‡ Excludes gas
[A] For period 1958 to 1973
na Not available

Source: OECD Industrial Production

Table 2 Non-regional investment incentives (non-discretionary)

	Depreciation	*Grants*	*Other*	*Remarks*
UK	Plant and machinery: 100% first year. Buildings etc: 40% initial allowance	–	–	
France	Based on asset life; in some cases on reducing balance method	–	–	Accelerated depreciation for assets used in R & D or pollution control
West Germany	Based on asset life; (option of reducing balance method on moveables currently suspended)	10% (now 7.5%) for investment for R & D purposes	[1]Currently an investment tax: VAT (11%) not 'reclaimable'	Accelerated depreciation for particular types of asset (ships, aircraft) or particular uses (R & D, pollution control): 50% (moveables), 30% (immoveables) freely in first five years, in addition to normal depreciation
Italy	–	–	–	
Sweden	Shortest fixed period of depreciation is 5 years for machinery and equipment. For buildings maximum allowance of 5% per annum. Stocks in trade can be written off to max. of 40% of value	–	Counter-cyclical Investment Funds Scheme	Discretion as to timing of general IF releases, which are equivalent to free depreciation and usually accompanied by a 10% investment allowance
USA	Based on asset life	–	–	Capital expenditure for R & D may be written off in first year
Japan	Based on asset life	–	–	Accelerated depreciation for enterprises deriving income from overseas transactions

[1] See footnote on page 192

Table 3 Non-discretionary regional investment and other incentives (differences from national)

	Depreciation	*Investment grants*	*Other*	*Remarks*
UK	–	RDGs (20% for mining manufacturing and construction)	REP (Expenditure 1972/73 £101m)	1 RDGs – 22% in special development areas 2 RDGs 1973/4 expenditure £225m
France	Accelerated (50% first year)	–	–	
West Germany	Accelerated depreciation in zonal border area only: 50% (moveables) 30% (immoveables) freely in first five years, in addition to normal depreciation	10% but reduced to 7.5% for cyclical reasons (Expenditure £50m)	A small amount of assistance with transport costs in zonal border area (at £5 million pa)	1 Special measures for West Berlin 2 Grants only available on certain carefully specified criteria, the most the most important of which is that sales should be primarily outside the region
Italy	–	–	1 10 year tax holiday 2 Reduction in transport costs 3 Reductions in social security contributions	
Sweden	Depreciation loans for buildings and machinery	Location grants of max of 35% or 50% depending on area of total investment costs. Investment grants and loans may not exceed ¾ of total investment costs	Transport subsidy equal to 15%-35% freight discount. Assistance towards training of employees. Govt guarantees loans for operating capital	Employment premiums in inner development area if firms abide by collective wage agreements
USA	–	–	–	1 Main regional measure is infrastructure support 2 There are taxation and other differences between States, but these are thought not to be very great
Japan	Special depreciation	–	Cheap (but not very cheap) loans; some preferential tax treatment	Assistance is automatic provided that criteria as to investment and employment are met

Table 4 Discretionary regional assistance

	Forms and rates of industrial assistance	*Provisions to limit investment in congested areas*	*Other measures*	*Remarks*
UK	Industry act offers great flexibility (1973/74 estimate £35m)	IDC System	LEA aids: Advance factories Training grants (Estimated 1973/74 cost £55m)	Assistance to shipbuilding (£32m in 1972/73) is mainly on regional grounds
France	Tax concessions, four rates 12-25% depending on region	Taxes in Paris area. Permis de Construire, like the IDC's	Funds made available from FDES, IDI and FIAT through the Societes de development regionale. Also direct persuasion of large firms	
West Germany	1 GA funds, (90m per annum) up to 10% – 25% (reduced to 9% – 22½%) depending on location, but investment grant, if taken is deducted from these limits. 2 Some Länder aids (£15m pa). 3 Some cheap ERP loans	–	–	1 Five categories of growth centres for GA funds. 2 Upper limit to amount of support and cost per job limit, in addition to specific appraisal criteria.
Italy	Grants or cheap loans for up to 50% of capital expenditure depending on size of enterprise and area of Mezzogiorno	Fines for job-creating investment in certain congested areas. Power of CIPE to veto investment projects	Support to State enterprises in return for obligation to make 80% of new investment (and 70% of total) in the South	1 Growth centre policy 2 Numerous smaller incentives also available eg exemption from stamp duty
Sweden	–	–	Special releases from IF funds	
USA	No significant direct assistance	–	Some support for retraining and through public procurement	
Japan	–	Legal control on industrial building in certain metropolitan areas, but no proper dispersal system	–	

Table 5 Support for R & D

	Support to cooperative research	*State research for industry*	*Favourable tax treatment*	*Project support*	*Other*	*Remarks*
UK	Grant to RAs	IREs	–	Mainly for advanced technology NRDC	–	Cost 1973/4 AT £174m other £23m
France	'Enveloppe recherche' ie grants to laboratories out of the the budget	–	50% first year depreciation	Development aid through direct govt. financing of firms	Tax exemption of profits from licences Special programmes such as the 'Plan Calcul'	
West Germany	Grants	–	Accelerated depreciation (see table)	AT support	10% (now 7.5%) grant for investment qualifying for accelerated depreciation	Also some aids from Länder
Italy	State participation in research societies (eg marine technology, housing technology) of which currently 4	Experimental laboratories mainly for traditional sectors	–	Cheap loans from IMI fund, repayable if success. Little AT support	–	IMI Fund c. £100m and is to be raised ?
Sweden	Financial support to industrial research associations	–	–	Support to technical R & D Grants for technical research. Also interest bearing loans		
USA	Some support from National Science Foundation	Federal installations and laboratories	Capital expenditure may be written off in first year	AT industries		Increasing emphasis on Civilian rather than military technologies
Japan	Selected projects financed by govt. Joint research endeavour— National Research and Development Programme	15 institutes and laboratories concentrate on basic research	95% first year depreciation, and discretionary accelerated depreciation for investment make use of research results	Little AT support Cheap loans to finance, applications of new technologies £12m per annum)	Tax deferment of three years or 3-6% of current sales revenues for investment in qualifying polution control equipment	

Table 6 Selective intervention – advanced technology industries

	Aircraft	*Space*	*Nuclear*	*Computers*	*Remarks*
UK	Concord development + production Rolls Royce RB211 etc. Other R & D support •••	National satellite programme; ESRO ••••	Reactor R & D by AEA; loans to British Nuclear Fuels ••••	Support to ICL for new range, and assistance through procurement policy •••	KEY: Subsidy-output ratios •—0–5% ••—5–10% •••—10–25% ••••—25–100% •••••—over 100%
France	•••	••••	••••	••	
West Germany	Launching aid; credit guarantees for production finance; aid with sales finance •••	ELDO, ESRO and a national programme ••••	Grants mainly to industry and assistance to electricity supply industry for demonstration plants •••••	R & D Support	Also grants (on small scale) for advanced electronics R & D
Italy	No special measures •••	ELDO and ERSO ••••	No significant industry	No support	
Sweden	•	No significant industry	•••	Unsubsidised	
USA	•	••••	••	••	
Japan	Loans for R & D and to airlines for purchase of new and domestic aircraft •	Scientific and Applications Satellite Programmes ••••	Preferential tax treatment cheap loans and some payments for R & D work ••••	Grants for R & D and soft loans ••	Cheap loans are from Japan Development Bank. Also assistance for some electronics projects (grants for R & D, cheap loans and special depreciation)

Table 7 Selective intervention – other industries

	General approach of State	*Non—A T sectors supported*	*Institutions*
UK	Interventionist	1 Shipbuilding—considerable support through export credit, construction grants, aids to UCS etc 2 (Industry Act powers)	IDU within DTI
France	Interventionist	Particularly iron and steel, chemicals, textiles, electrical and electronics	IDI
West Germany	Strongly non-interventionist	1 Shipbuilding, (export credit and ERP aids for modernisation) 2 Oil (assistance because of high risks for exploration etc) In both cases assistance is relatively low.	1 KFW—a credit institution the major part of whose activities involves lending from ERI funds. The main industrial recipients, except for export credit, are small and medium sized companies. 2 RKW—Some state assistance for consultancy to small firms.
Italy	Interventionist, but not sectorally	Difficult to know extent of cross-subsidisation in state enterprises, but IRI certainly maintaining some uneconomic operations (eg loss-making shipyards, loans for restructuring of textile industry) (fund of £135m)	1 State enterprises (IRI, EN I, EFIM) operate in competition with private sector on fairly equal basis. 2 GEPI—recently founded to take over and transform 'lame ducks' into viable companies. 3 IMI—cheap loans for industrial restructuring (where management is sound) Total fund <£30 million
Sweden	Non-interventionist	Shipbuilding, textiles, craft glass industries	Statsforetag
USA	Non-interventionist	1 Mainly aids to avert liquidation-eg Lockheed, and Penn Central Railway. 2 Chemical industry, benefits from American Selling Price system of import valuation for tariff purposes	
Japan	Interventionist/consensual	Oil-assistance to finance prospecting etc. Mechanical engineering financial aid for development and modernisation of various sectors. Textiles—aid for modernisation	Japan Development Bank (cheap loans for industrial restructuring, new industries and technologies and on regional grounds)

The administration of industrial subsidies

G M FIELD AND P V HILLS

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Introduction

This paper considers some of the administrative issues which arise when governments give subsidies for industry. It describes the arrangements which have been made to administer some of the British Government's main industrial subsidy schemes over the last 15 years or so and the difficulties or criticisms that have arisen. Being a background paper, it does not stray into the potentially controversial sphere by attempting to draw conclusions about the merits of one kind of subsidy scheme over another from an administrative point of view.

The paper falls into two parts. The first deals with general subsidy schemes under which the subsidy is administered within standard rules of procedure to determine the eligibility of applicants and within those rules is available to all comers. Examples of such schemes are accelerated depreciation allowances, Investment Grants, Regional Employment Premium. The second part deals with specific or bespoke schemes under which a tailor-made subsidy is given to a particular person or firm for a particular purpose eg for a specific project or product, or for the restructuring or re-equipment of a firm. Examples of such schemes are the assistance given to aluminium smelters under the Industrial Expansion Act, and assistance to individual firms under Section 8 of the Industry Act 1972.

The two categories are not as clear-cut as this brief and simplified description suggests. Some schemes are or have been operated in a standardised way but the subsidy is tailored to the needs of the firm and the project in question, eg assistance under the Local Employment Acts and under Section 7 of the Industry Act 1972. Nevertheless the broad distinction between the two categories is helpful and these selective but general schemes are included in the first category for the purposes of this paper.

The importance of administrative considerations is obvious. It is no good having a subsidy scheme which is theoretically ideal unless it is also practicable. 'Practicable' means meeting the following criteria:

(a) The scheme should be readily understandable and should not impose an undue administrative burden on either Government or industry.

(b) It must be possible to secure that Parliament's and Ministers' intentions are carried out, by ensuring that the subsidy goes only to those industries and for those activities for which the scheme was intended.

(c) Public money must be safeguarded as far as possible against the possibilities of fraud, of legal abuse, of failure to observe the conditions of the assistance, and of losses arising from the collapse of companies.

A further criterion applying to the general schemes is:

(d) The need to secure equity in the treatment of applicants.

A comment on terminology is appropriate before the substantive discussion in Parts I and II below of the general and specific schemes. The question of what

constitutes a subsidy is one on which there has been much discussion but not a lot of agreement. This state of affairs is due to a number of factors among which are the role of subsidies in economic theory as an impediment to outcomes which market forces would dictate and their doubtful position under international agreements. There can thus often be room for considerable argument about whether a given measure constitutes 'aid' or 'assistance' rather than a 'subsidy'. This paper is not the place to pursue such a venerable will-o-the-wisp. But it should be noted that not everyone by any means would accept that every measure covered in it is 'a subsidy'. The measures covered were chosen for their importance or interest – and with an eye to not making the paper too long. Their presence in it, therefore, should not necessarily be construed an admission that any particular one is a subsidy and the expression should be read in that light.

I General schemes

General schemes have been responsible for a much bigger share of total Government spending on industrial subsidies, at least in recent years, than have specific schemes. The philosphy behind blanket subsidies of this kind is that their availability and value are readily calculable by industrialists, who can therefore take them into account in planning their activities. Such schemes thus build a weighting into the operation of market forces in favour of, for example, capital investment in industrial plant and machinery, of employment in manufacturing in the Development Areas, and so on. They are an attempt to influence industry's decisions without detailed involvement in its affairs, although this as we shall see is a matter of degree. The hope is that general schemes will be relatively straightforward, quick and inexpensive to operate, indeed if they are not then a great part of their value is lost because they will not have the desired effect on industrial decision making.

Successive governments in recent years have tended to concentrate on using general subsidy schemes because of doubts about the feasibility of 'fine tuning', of a selective, discriminatory approach in which the amount of a subsidy would be negotiated case by case and pitched at just that level, and no more, which is needed to influence the decision. Although this more specific approach has been adopted to a limited extent, it has been considered too expensive in staff costs and too difficult and time-consuming to be followed on a bigger scale.

Tax incentives

In the 1950s and the first half of the 1960s the main incentives for capital investment in industry were operated through the tax system in the form of accelerated depreciation allowances and investment allowances. The acceleration was brought about mainly by an initial allowance – that is an allowance for the first year above the normal annual writing down allowance. Another form of accelerated depreciation was the free depreciation which was given for industrial plant in Development Districts from 1963 to 1966. Accelerated depreciation did not increase the amount of the total allowances over the life of the asset, which was limited to its cost; the investment allowance however was given on top of depreciation allowances. Initial allowances, free depreciation and investment allowances were in most cases replaced by Investment Grants in 1966 but the tax system returned to the forefront of Government measures to stimulate investment in 1970: when Investment Grants were ended, depreciation allowances were increased, and the rates were biased in favour of the Development Areas. It is the need to discriminate, whether between capital and current expenditure, between different parts of the country, or between different types of assets or different industries, which presents the main administrative problems for the Inland Revenue. Problems for the Revenue produce in turn problems for

industry because of the greater amount of information required to enable the Tax Inspector to do his job, the greater amount of policing which is necessary, and the delays which result from the greater complication. These considerations mean that the tax system can only be a blunt instrument when used for incentive purposes. One result of using the tax system is that the full benefits go only to firms who are making enough profits, so there is a built-in element of discrimination in this sense. There are of course differing views about the extent to which this form of discrimination is desirable: the benefit of the incentive is delayed, particularly for new firms which take some time to produce profits, and even where ample profits are available there is a relatively long interval – compared with a system of grants – between the incurring of the expenditure and the receipt of the benefit in cash terms when the reduced tax is due for payment.

Under the investment allowances system, firms not only had the full cost of their qualifying capital investment deducted from gross profits before tax was calculated, but also an additional premium of 30 per cent of the cost of the investment. The allowance was thus a kind of grant except that it was paid in the form of a deduction from tax liability, not as cash payment. The chief administrative problem of this system was that it gave firms an incentive to claim that current expenditure – which is deducted 100 per cent before taxable profits are arrived at – was capital expenditure and thus eligible to be deducted 130 per cent. The distinction between capital and current expenditure is very difficult to draw at the margin, and while the Revenue adopts as a rule of thumb that capital assets last for at least two years, there is no statutory backing for this. Firms began to claim that all kinds of expenditure which had previously been regarded as current, such as the canteen cutlery, was in fact capital and Tax Inspectors were involved in a great deal of work preparing for appeals against their decisions before the Tax Commissioners.

Between 1970 and 1972 capital investment on new plant and machinery in the Development Areas qualified for a 100 per cent first year allowance, as against 60 per cent and later 80 per cent in the rest of the country. This differentiation involved two sets of calculations in assessing the value of allowances and a need or policing to ensure that assests said to be used in the Development Areas were indeed used there. The policing of the tax incentives is done locally by Inspectors of Taxes under the same procedure as for other tax allowances.

With the Finance Act 1972 the 100 per cent first year allowance, hitherto confined to the Development Areas, was extended to the whole of the country. A new system of Regional Development Grants was introduced but the value of grants received was not to be deducted from the cost of assets in calculating tax allowances. For the Revenue, this system is in a number of respects much simpler to administer than its predecessors for the following reasons:

(a) There is no regional differentiation in the tax system.

(b) The distinction between current and capital expenditure, while still necessary, does not have the significance which it had under the investment allowances system and there is little incentive for firms to attempt to blur the distinction for tax purposes.

(c) The fact that the receipt of Regional Development Grants, unlike Investment Grants, has no effect on tax allowances removes the need for the Revenue to check the extent to which firms have received grants in respect of the investment for which allowances are being claimed.

(d) All expenditure on plant not written off in the first year or carried back against profits of previous years has to be written off at a single rate of 25 per cent (reducing balance method). All expenditure on buildings has to be written off, apart from the first year allowances, at the rate of 4 per cent (straight line method).

Thus apart from the distinction between plant and buildings, there is no differentiation of depreciation rates and all expenditure can be put into a single pool for the purpose of calculating allowances.

The present arrangements for plant are often referred to as 'free depreciation' but in fact under a system of true free depreciation firms are allowed to write off their capital expenditure against tax liabilities in whatever way they like. There has been some pressure for such a system, which operated in the Development Districts from 1963 to 1966, to be reintroduced on a national level. The objection to this has been that the yield of Corporation Tax would be more unpredictable and this is unacceptable from a budgetary standpoint; and that in any case the present arrangements are very little less generous than true free depreciation would be.

Investment Grants

Investment Grants (IGs) were introduced under the Industrial Development Act 1966 as cash grants towards capital expenditure on new plant and machinery in the manufacturing and construction industries, and on mining works, computers, ships and hovercraft. These paragraphs are concerned chiefly with the issues arising in the area of manufacturing industry. The scheme covered the whole of Great Britain but with a higher rate of grant applying in the Development Areas, the rates being 20 and 40 per cent except for expenditure incurred in the calendar years 1967 and 1968 when they were increased to 25 and 45 per cent.

The object of the system was to encourage investment in general but to concentrate the assistance in those sectors of industry and those areas of the country where the Government particularly wished to bring about additional investment. They regarded the previous system of investment allowances as too widely dispersed to be fully effective. Two fundamental principles of the scheme are worthy of note. First, the eligibility of assets was determined by whether they were used for a qualifying process. Second, payment of grant was permissive, not mandatory. The reasoning behind these provisions was that an entirely new line was being drawn between eligible and ineligible assets in order to exclude all assets of service industries and some assets (eg vehicles) of manufacturing industries. This new discrimination would create many anomalies and give rise to numerous difficult borderline decisions. In the last resort it was therefore regarded as essential to leave it to the Department concerned to decide, within the limits of the legislation, whether or not to pay grant in a particular case. There was no provision for appeal either to the courts or to any special tribunal, because decisions of the courts were considered to have frustrated Government policy in the case of the mandatory investment allowances. There was no question of the Department discriminating between firms arbitrarily; it could discriminate only according to the type of process carried out or item of plant used. Certain categories of plant were systematically excluded in this way, notably office machinery and furniture, canteen equipment, loose tools, small and short-lived items, and all items below the specified minimum value of £25. The Department published guidance notes to help firms to know to what extent their investment expenditure was likely to be admissible for grant. Nevertheless the element of discretion was strongly opposed by industry at first and certainly detracted somewhat from the automaticity which was reckoned to be one of the basic qualities of the scheme. One effect was to produce representations against the Department's decisions through other channels such as Parliamentary Questions, letters to Ministers, and complaints to the Parliamentary Commissioner for Administration (Ombudsman). Nevertheless, considering that nearly 700,000 claims were dealt with between 1966 and 1974, the volume of such representations was remarkably small.

Investment allowances had been administered by the Inland Revenue as part of the general consideration of a company's tax liability, with no special staffing

structure. The Revenue had to consider only whether the investment expenditure was of a capital nature and whether it was on plant and machinery – not that either of these tests was necessarily simple, as we have seen. On the other hand for the purposes of IG, the Department had to decide in addition whether the asset was eligible and being used in a qualifying process. It was also necessary to determine the rate of grant to be applied and whether the enterprise was carrying on business in Great Britain, quite apart from a wide variety of special problems concerning computers, hired assets, ships and so on. Applications had therefore to be presented in some detail and to be examined by staff of a level capable of interpreting the provisions of the Act and the administrative policies decided upon. Some indication of the size of the task is that in the peak years, 1969 to 1970 and 1970 to 1971, around 140,000 applications were received and £587m paid out in grant each year.

The system was administered by five IG offices situated in Glasgow, Cardiff, Billingham, Boo'le and Southend, involving a total staff of 1,000 at an estimated initial cost of £2m a year. The decision to administer the scheme on a regional basis was taken for both practical and policy reasons. It would have been inconsistent with the policy of dispersal to establish a single unit in London, the only place where there was a reasonable chance of assembling and accommodating the required number of staff in the time available. Moreover industry expressed a strong preference for local decisions, while from the Department's standpoint the need to inspect assets to determine eligibility and the subsequent policing of grant payments reinforced the case for area offices. On the other hand decentralisation creates a need to secure consistency of treatment between the different offices, and inter-office consultation, particularly by Office Directors in committee, was a feature of the organisation. The role of the IG Division at HQ was to provide policy directions, to provide forecasts and reports of expenditure for Treasury and Parliamentary purposes, to review the scheme, and to deal with Ministers' cases and Parliamentary Questions. General guidance on examination procedures was given to the IG offices and supplemented by instructions on particular matters raised by individual cases as experience of the scheme was gained. Over the lifetime of IGs 632 such instructions were issued. The real world being too complex for any set of administrative rules, there was a continuing need for difficult cases to be submitted to HQ and for additional instructions to be issued.

In applying for grant, firms had to describe the assets in question, the process in which they were to be used, and the expenditure incurred. Applications had to be signed by a director of the company and by an independent accountant, this method of certification being preferred to the direct examination of invoices and receipts by the Department. The accountant's report was checked by confirming that the signatory was qualified and also by confirming with him independently that he had in fact signed the particular report. The *bona fides* of applicants was checked against a business register and with the Inland Revenue. Apart from this, the test of examination consisted in ascertaining, from the material supplied on the specially designed application forms and from questions to the applicant where necessary, whether the asset was admissible under the agreed policies, eg was plant and not part of a building. Inevitably the administrative system took some time to settle down but by 1970 a check of a proportion of claims passed for payment found errors which would have led to overpayment of about £15,000, or 0·04 per cent of the total grant payable in the sample, and underpayments of £3,000 (0·01 per cent). The cost of applying the check was £16,000.

Since the grants were in the main to be given towards expenditure on assets to be used for certain purposes, it was essential, in order to safeguard the public purse, for the Government to be able to recover grant if the assets ceased to serve these purposes. The Department therefore imposed conditions which allowed them to

recover the grant in certain circumstances, notably where an asset ceased to be used for a qualifying process or was disposed of, and recipients of grant had a commitment to notify the Department of such events. Inspection teams were set up in each of the grant offices whose job was to visit firms to see if the conditions were being complied with and also to check whether the facts as stated on the application form were correct. The rate of inspection enabled the inspectors to get round all recipients of grant within about five years. In the period to the end of September 1973, 112,000 establishments were visited, and 766,000 assets were inspected of which 52,000 revealed apparent irregularities. Recovery of grant, in whole or in part, was usually effected by deduction from future payments. Over the six years 1967–68 to 1972–73, £950,000 of grant was written off, of which £712,000 was due to liquidations, the rest being overpayments or cases involving breach of conditions where for various reasons the grant could not be recovered. During this period some £2,800m of grant was paid out. In only five cases were firms or individuals prosecuted for fraud.

Three particular problems which arose on the IG scheme are worthy of note. First, the fact that the test of eligibility for grant depended on plant being used in a qualifying process meant that the purpose for which a piece of plant was being acquired had to be clearly stated in each case and frequently the process had to be examined by the IG office. This was perhaps the greatest single source of difficulty in administering the scheme. Second, the termination arrangements introduced in the Investment and Building Grants Act 1971 provided that grant could be paid on expenditure incurred after 26 October 1970 (the date of the announcement of the end of the scheme) only if the expenditure was due under a contract made on or before that date. The intention was to combine a degree of fairness to firms who had committed themselves to expenditure in the expectation of receiving grant with the maximum saving to the Exchequer and the prevention of 'forestalling' ie the bringing forward of expenditure for the purpose of receiving grant. In practice this provision gave rise to a great deal of dispute because firms claimed that in many cases it was not their practice to use formal contract procedures and thus that much capital expenditure was in reality committed but unreasonably excluded from grant. Ministers recognized that there was a strong element of rough justice about this approach but in presenting the legislation they stuck to the view that the contract test was the most generous arrangement which they could allow. Much time and effort was devoted to this issue by both industry and the Department because substantial supporting documentation was called for in many cases and there was also a good deal of misunderstanding about what legally constituted a contract. The winding up of the IG scheme was substantially delayed as a result. Third, expenditure on IGs proved very hard to forecast. The scheme was entirely new and was open-ended in that grant was payable on all valid applications, however many there were. The amount of grant payable in a given year depended on the level of capital expenditure by the industries concerned, the proportion of it incurred on eligible assets, its distribution between DAs and non-DAs, the timing of applications, and in the early years the extent to which firms opted to claim allowances rather than grants. The following table compares the original estimate of expenditure with the final out-turn year by year:

	Original estimate £m	*Final out-turn £m.*
1967–68	166	315
1968–69	380	475
1969–70	460	587
1970–71	600	587
1971–72	620	492
1972–73	390	337
Totals	2616	2793

To some extent the disparities were the result of deliberate Government decisions, eg to speed up the payment of grant, after the estimates were made. Nevertheless the figures indicate the substantial problems which the scheme caused to those whose task was to forecast public expenditure for budgetary and other purposes.

Regional Development Grants

Regional Development Grants (RDGs), introduced under Part I of the Industry Act 1972, are very similar in concept to IGs but there are a few important differences. Again RDGs are cash grants towards approved capital expenditure already incurred by the applicant and the main qualifying industries – manufacturing, mining and construction – are much the same as for IGs. The chief differences are:

(a) RDGs are payable on assets for use in the Assisted Areas only;

(b) The test of eligibility is that assets should be used on qualifying premises, not in qualifying processes. Thus once premises are classed as qualifying, subject to some re-checking of marginal cases, grant may be paid virtually automatically for assets which are to be used there. To qualify, premises have to be used wholly or mainly for qualifying activities. The normal test is whether more than half of the employees are occupied in qualifying activities, but other tests, eg the activities in which most of the capital equipment is used, may be adopted if the employee test is considered to give an unreal result. If premises are classed as qualifying, all capital equipment to be used there, whether or not it is to be used for qualifying activities, is eligible for grant. By the same token, if premises are not classed as qualifying, then none of the equipment is eligible for grant. The use of this criterion greatly simplifies the administration of grant, though it has an element of rough justice about it;

(c) RDGs are payable on buildings, as well as plant and machinery. This removes the need to distinguish between plant and buildings except in the Intermediate Areas where only buildings qualify;

(d) As noted above, RDGs are not deducted from the cost of an asset in computing tax allowances.

As with IGs, RDGs are administered by RDG offices – at Billingham, Bootle, Cardiff and Glasgow – and by a policy division at HQ. Because of the limited geographical coverage and the simplifications which have been introduced compared with the IG scheme, the number of staff involved is being cut by several hundreds as the IG scheme is being wound up. As far as forecasts of expenditure are concerned, the scheme was slower to build up than expected but for the current year the Vote Estimate of £225m is expected to be near the actual result.

Assistance under the Local Employment Acts (LEAs)

Various forms of assistance were available to industry in the Assisted Areas under the LEAs of 1960, 1963 and 1970, the Industrial Development Act 1966 and the Investment and Building Grants Act 1971 (referred to collectively for this purpose as the LEAs). The provisions were consolidated in the LEA 1972 but the forms of assistance referred to below were then superseded by the Industry Act 1972. The main forms of assistance were loans on favourable terms, Building Grants, Plant and Machinery Grants (1963 to 1966 only), Removal Grants and Operational Grants. Unlike IGs and RDGs, LEA assistance was mainly project based, negotiated case by case, and linked to the provision of new employment, or in some cases, the maintenance of existing employment. The grants were standardised in the sense that the rates of grants were fixed by statute or administrative decision (although from 1966 Building Grants were subject to a maximum cost per job) and the qualifications laid down, but in some cases, notably the higher rate of Building Grant and the Operational Grants, the qualifications were very narrowly drawn and complex to administer. Loans were more flexible, being tailored to the circumstances of the individual case although within certain broad restraints in the form of cost per job limits and a limit on the proportion of the cost of the project

which could be met from public sources. Where more than one form of LEA assistance was afforded to a single project there was an overriding cost per job limitation on the assistance.

The administrative machinery for handling LEA assistance on the Government side consisted of three elements: the Department's HQ and Regional Offices and an advisory committee called successively the Board of Trade Advisory Committee (BOTAC), the Ministry of Technology Advisory Committee (MOTAC), and the Local Employment Acts Financial Advisory Committee (LEAFAC), and hereinafter referred to as LEAFAC. Broadly speaking it was the role of HQ to lay down policy, to give guidance to Regional Offices, and to handle casework; the Regional Offices dealt with firms' initial inquiries in the light of the HQ guidance, made an initial vetting of applications for eligibility, and carried out an initial investigation of the project paying particular attention to the plausibility of employment forecasts; LEAFAC carried out a financial appraisal and advised the Minister whether assistance should be given and if so (except for the standardised grants) how much and on what terms and conditions. The Regional Offices had no devolved authority to approve assistance even in small cases. Thus the system was centralised and standardised.

The Acts provided that assistance was to be directed towards the provision of employment. Firms were required to estimate the number of new jobs which would be created as a result of the investment they were proposing so that LEAFAC and/or the Department could judge whether the amount of assistance being requested was justified. Some applicants found it difficult to make such forecasts, which in many cases were not part of their own investment planning, and there were varying degrees of realism in the forecasts provided. The Regional Offices had to assess the plausibility of the forecasts on the basis of their experience of other establishments in similar lines of business and past dealings with the firm, and LEAFAC and/or HQ took full account of this assessment. Once an offer had been made, however, generally speaking there was no effort to reduce the assistance paid or to claw it back because employment targets were not reached, unless this was the result of significant changes in the nature of the project itself. On the other hand the committee's attitude to further applications from the same company might be influenced if job forecasts in the past had proved to be over-optimistic.

Following a recommendation of the Estimates Committee, regular sample checks were made of the number of jobs actually created as a result of assistance offered. These checks revealed that the number of jobs created was around 85 to 90 per cent of the number expected to arise at the time the assistance was approved. The Department has no reason to think that the requirement to forecast jobs arising deterred many firms from applying for LEA assistance, or that the employment link caused any significant degree of distortion in firms' plans purely in the interests of receiving more assistance.

The role and composition of LEAFAC are worth attention. The committee, which met once a month or more often if the need arose, consisted of about six members, one of whom was appointed chairman by the Minister. The members were drawn from industry, banking, accountancy and the trade unions and held their positions as individuals and not in any sense as delegates. The practice was always to have a Scot, a Welshman, and a member from one of the English Assisted Areas. The committee was served by a Secretariat of up to 40 people seconded from the Department. The committee's independence from the Minister and from any outside pressures was jealously guarded and it was not required to give reasons for its decisions. It was given general policy guidelines by the Department, eg that the security for loans advanced should be the best available in the circumstances, that the purpose for which a loan was recommended should be specified, that loans should only exceptionally be recommended for longer than a ten year term, and that

Removal Grants should only cover a certain proportion of certain specified costs. For Building Grants it was required to advise whether the business and financial structure of the undertaking was such as to give reasonable assurance that the project would provide continuing employment. Except for Building Grants after 1968, assistance could not under the terms of the legislation be given without the committee's recommendation and even in the case of Building Grants the committee's advice was in practice sought in all but the small cases and never overridden. Although the committee was described as advisory, therefore, its role was plainly very powerful. When the circumstances of a case changed after the committee had made its recommendation on a loan, Removal Grant or Operational Grant, the Secretariat had discretion to agree to minor variations in the terms of the assistance but any substantial variation had to be referred back to the committee. Building Grants were referred back by the Department for a further opinion if project costs increased by more than a certain proportion before the grant was offered; some such references back were settled by the Secretariat.

The drawbacks of the LEAFAC system were a certain slowness in the processing of cases – largely because of the amount of information which had to be provided and assessed – and the lack of a strong regional representation in their assessment. The benefits were a greater degree of selectivity compared with the 'automatic' grant schemes, a consistent approach as between different cases and different parts of the country, and a strong safeguard for public money because of the independent and unbiased check which the committee provided. Some idea of the scale of the operation is given by the fact that at the maximum some 600 firms were in receipt of loans approved by LEAFAC and its predecessors. In 1969–70, the committee considered 353 cases involving loans, Removal Grants, Operational Grants and associated Building Grants, and 713 separate Building Grant cases.

The procedure was for a firm to submit its application to the Regional Office and, for applications other than for Building Grants only, at the same time to have informal meetings with members of the LEAFAC Secretariat who made regular visits (called 'clinics') to the regions advising on the criteria followed by the committee and on the processing of applications, though without any commitment. Some hopeless applications were 'talked out' to avoid wasting everybody's time. Once the Regional Office and HQ had both satisfied themselves as to the application's eligibility, a submission was prepared by the LEAFAC Secretariat, together usually with a report from the Accountancy Services Division of the Department acting for the committee and a technical report from an Advisory Officer, and put to the committee. This took the form of a factual description and comments on the soundness of the firm and the project, but there was no recommendation, as such, to the committee. In the case of loan applications, the committee decided, within the Department's guidelines, on the interest rate and other terms of the loans recommended; the rate was usually between 2 and 4 percentage points below commercial rates and applied to all loans approved at any one time. Variations in the subsidy value of loans were effected by the differing interest free periods sometimes given. Loans were typically for five to seven years. The committee gave its advice to the Minister, who was free to accept or reject the advice *in toto*, not amend it, though he could ask for it to be reconsidered. If the decision was taken to give assistance, an offer letter was sent to the applicant by the Department, and provided the offer was accepted and the conditions met, the assistance was paid.

Loan applications tended to be more complex than grant cases because of the need to safeguard and provide for repayment of the Government's money. (This was inevitable but perhaps paradoxical, because of course grants provide a greater degree of subsidy.) Consequently a wide range of supporting information was required from applicants by LEAFAC, covering trading history, forecasts of future trading, project costs and financing, management including financial control,

labour requirements and the security available for a loan. Cases invariably involved investigation by the Department's accountants and by the Advisory Officers, although the latter could be dispensed with where big and well-established companies were concerned. Extensive and mainly standard conditions were attached to loan offers, although the Department tried to be flexible where firms subsequently asked for particular conditions to be waived. The committee's general approach was regarded as rather unadventurous. Their good judgment and their caution are illustrated by the fact that by 1970 only £850,000, or 0.72 per cent of all loans advanced up to that time, had had to be written off. The after-care work on LEA loans was the Department's responsibility, discharged in practice by those officials who formed the LEAFAC Secretariat. In later years the committee was asked increasingly by the Department for advice on substantial issues which arose in the course of after-care work, eg requests for the postponement of capital or interest payments on loans. In this work the Department's and LEAFAC's twin concerns were to protect the company and preserve the employment whenever possible, provided this did not unduly put at risk the public money at stake.

Building Grants were available at first to a wide spread of industry, but from 1968 service industries were assisted only in respect of projects which would provide at least 50 additional jobs and which were not designed principally to serve local needs. Applications were submitted to the Regional Office, which was responsible for preliminary investigation and assessment of the employment targets; the company's forecasts had to be offset by any consequential job losses arising elsewhere in the Assisted Areas as a result of the project. The application and report was then sent to HQ and arrangements were made by the Regional Office for the necessary financial information to be sent by the applicant to LEAFAC. Building Grants, like all other LEA assistance had to be applied for in advance, thus differing from the current RDGs for buildings. Applications had to be submitted before the building work was completed or the building occupied (or part occupied) whichever was the earlier. Because of the large numbers of these applications, LEAFAC dealt with them by three two-man sub-committees. Applicants had to submit details of their project, including trading history, future trading figures and requirements and resources figures. Unless it was a new company, a report from the Department's accountants and from an Advisory Officer was not required, except where the sub-committee thought the application likely to be rejected, in which case reports would be obtained. The sub-committee's decisions were submitted to the full committee each month for ratification but only the full committee could reject applications.

Offers of grant were based on the estimates of expenditure (after vetting by LEAFAC), though a maximum figure could be stipulated on cost per job grounds. HQ also had to be satisfied that the company had security of tenure in the building concerned for at least ten years, in order to be able to meet the requirement of providing continuing employment. Plans and specifications were called for in all cases until 1971, when they were dispensed with in cases where estimated costs were not more than £50,000 and a detailed description of the work accepted instead. All plans and specifications were examined in detail by the professional staff of the Department of the Environment, who advised whether the building was reasonably suitable for its intended purpose and whether the estimated costs were reasonable. The amount of grant paid was calculated on a percentage of the actual eligible costs (except where scaled down on cost per job grounds), subject to production of an architect's or accountant's certificate. In cases where costs exceeded £20,000 two progress payments could be made on certification respectively of one-third and two-thirds of costs. Building Grants were offered subject to certain conditions, such as the continuation of the enterprise within the grant-aided building, and if these conditions were breached within a specified period of five years the Department could reclaim the whole or part of the grant. After-care activity to see that the conditions were met was handled by the Department's HQ and Regional Offices

and consisted of postal checks with the company plus two visits to the site in the five year period.

One element of LEA assistance worthy of note is that in some cases a distinction was drawn between firms already existing in an Assisted Area and incoming firms. Thus a higher rate of Building Grant – at first 35 per cent of eligible costs rather than the usual 25, and subsequently 45 rather than 35 – was available to incoming firms, while Operational Grants were available only to incoming firms in Special Development Areas. Firms were only classed as 'incoming' if there were no associated enterprises within a 30 mile range of the new project on which the firm might be able to draw for resources, particularly managerial. At first Operational Grants took the form of a payment of 10 per cent of the cumulative expenditure, net of grants, on new buildings and plant and machinery, in each of the first three years of operation of the project; but this was subsequently changed to 30 per cent of the eligible wage and salary costs of the project during the first three years of operation. Again the grant offer was based on the estimated expenditure on wages, subject to overall cost per job limitation; if less was spent in the event, less grant was paid, but if the estimates proved too low there was no increase in the grant. There was no provision for Operational Grants to be reclaimed but if circumstances changed materially future payments might not be made. The theory behind this favourable treatment of incoming firms was that higher costs would be incurred than with an existing firm, but in practice the scheme proved very complicated to administer, led to lengthy disputes with applicants about whether or not they qualified, and was also felt to be unfair to existing firms who might be in direct competition with the newcomer. This form of discrimination has been dropped under Industry Act forms of assistance.

The procedure for the investigation of Operational Grant and Removal Grant applications was similar to that described for loans, which were often also involved.

Assistance under Section 7 of the Industry Act 1972

Just as the RDG scheme follows closely the precedent of the IG scheme but with certain important differences, so the experience of administering LEA assistance has been drawn on in establishing the procedures for selective financial assistance under Section 7 of the Industry Act 1972. In this case, however, the differences are perhaps more striking than the similarities. The powers are wider, in that they enable the Secretary of State to give assistance in virtually any form and in virtually any circumstances where the assistance is likely to provide, maintain or safeguard employment in the Assisted Areas and is for one of the purposes, such as the creation of productive capacity in an industry, which are listed in Section 7(2) of the Act. Administrative rules (guidelines) have been drawn up to define the circumstances in which assistance will normally be given and the main forms of assistance which are to be used. The guidelines have been published (see Appendix D in the Annual Report on the Industry Act 1972 for the year ended 31 March 1974). As under the LEA the main use of the powers is to help firms with projects providing new jobs, and loans and removal grants are still among the main forms of assistance. The third main form, Interest Relief Grants, is new however and offers substantial advantages. By assisting with the interest cost of loans raised from private sources, the Department can give the subsidy equivalent of a concessionary loan with less call on public expenditure and without the full vetting procedure which is needed to safeguard public money when a loan is given. On grounds of both policy and administration, no attempt is made to restrict assistance to projects which would not go ahead without it: it would not be practicable to distinguish fairly between projects on this basis.

The most striking feature of the administrative system which has been set up is the extent of devolution to the Department's Regional Offices. Within guidelines laid down by HQ in consultation with the Treasury, the Regional Offices have authority

to approve assistance in individual cases of up to £1m in loans and the equivalent in Interest Relief Grants. Only cases above this limit or which fall outside the guidelines (and these are very much the minority) have to be referred to HQ. Regional Offices seek advice (except on small clear-cut cases) from the Regional Industrial Development Board, an advisory body consisting of people with experience of working in industry, the trade unions, commerce and the professions within the region. Cases are assessed by the staff of the Regional Offices who submit reports and recommendations to the Boards. The Boards are non-statutory so their approval is not mandatory but in practice their view is rarely set aside.

The advantage of this system of regional devolution is that cases can be dealt with quickly and by people who are familiar with the region and can take account of the region's needs, as well as the circumstances of the application, in reaching decisions. The danger is that undue inconsistencies of approach may arise between regions. A major purpose of the guidelines, which have been supplemented by detailed operating guidelines for internal use, is to minimise the risk of inconsistencies between regions. Nonetheless the guidelines leave Regional Offices and Boards a significant degree of freedom to tailor the assistance to the circumstances of each case, by choosing between loans and Interest Relief Grants, by offering interest free periods of varying length and by varying the requirements for the repayment of principal.

Cases outside the guidelines or outside the Regional Offices' delegated financial authority are decided at HQ, generally after consultation with the Industrial Development Advisory Board (IDAB). The divisions concerned at HQ are Regional Industrial Finance Division which is responsible for policy, guidelines and the handling of big and exceptional cases; the Industrial Development Unit which includes staff recruited temporarily from eg the banking and accountancy professions as well as career Civil Servants; and the industry sponsoring divisions.

Regional Employment Premium (REP)

The statutory provisions governing REP are complicated by the fact that the scheme was tacked on to the system for refund of Selective Employment Tax, which together with the SET additional payment was known as Selective Employment Premium. Thus REP, which was introduced in the Finance Act 1967, was made payable in respect of those employees for whom Selective Employment Premium was payable (under the Selective Employment Payments Act 1966) and who worked in an establishment in the Development Areas. Even now that SET and the related structure of refunds and premiums have been abolished, the provisions governing eligibility for REP are still based on that system. From September 1967 to 4 August 1974 REP was payable at the rate of £1.50 per male employee with lower rates for women, boys and girls. The rates were doubled from 5 August 1974.

To claim REP, an employer has to submit an application to be registered by the Secretary of State for Employment for the purposes of the scheme. Entitlement to be registered depends on four conditions being satisfied:

(a) The establishment is engaged wholly or partly in any of the eligible activities. Basically these are the activities listed in Orders III to XIX of the Standard Industrial Classification (SIC Rev 1968) and in scientific research or training relating to those activities.

(b) More than half of the persons employed in or from the establishment are employed wholly or mainly in connection with those activities.

(c) Not more than half are employed wholly or mainly in activities carried on for office purposes or transport or by way of the sale of goods.

(d) The establishment is situated within a Development Area.

The first three of these conditions are laid down in the Selective Employment Payments Act 1966; the fourth in the Finance Act 1967. The effect of condition (c) is that if more than half of the workforce is employed in connection with the eligible activities referred to at (a) but more than half of the total workforce is engaged in the non-qualifying activities of office work, sales or transport, then the establishment fails to qualify for registration. In most cases it is clear that an establishment satisfies, or fails to satisfy, the conditions, but borderline cases may cause a great deal of difficulty. Difficulty may arise in a number of ways; where there is doubt as to whether the activities are eligible (the SIC is not a legal document and presents problems of interpretation); in defining an establishment in the case of sites where several activities, some eligible and some not, are carried on at a single establishment; where individual employees spend part of their time in eligible activities and part in ineligible activities. Nor is a decision, once reached, necessarily valid for a long period of time. Boarderline cases may swing in and out according to seasonal or other fluctuations in the workforce and in the extreme case an establishment may cease to qualify if a single employee is paid off. Since payments are calculated on a weekly basis, the test of eligibility has to be satisfied every week. If an establishment qualifies, even by a single employee, payments are made in respect of the entire workforce; and by the same token if it fails to qualify no payments are made even though a substantial number of the employees may be involved in eligible activities. This 'all or nothing' approach recalls the rule covering qualifying premises under the RDG scheme; and as in that case, it lays a great deal of importance on the marginal decisions. (In certain circumstances, however, the Department can divide the eligible activities in an establishment from the ineligible ones so that an employer can claim REP for the eligible activities as if they formed a separate establishment. In other cases, separate premises where the same eligible activities are carried on may be aggregated so that an employer can claim REP as if the separate premises formed one establishment.) Half rates of REP are paid in respect of employees who work less than 21 hours per week, unless they are normally contracted to work at least 21 hours.

Applications for registration are processed by the relevant local office of the Department of Employment: there are 22 offices which handle this work. If an application is approved, a certificate of registration is sent to the firm. At the same time the office notifies the Department's SEP Office at Runcorn where the details of the establishment are incorporated on computer records, and a claim form is sent to the employer. Employers are advised to submit claims as soon as possible after a claim period, lasting 13 weeks, is completed, but there is no limit to the time lag within which claims are accepted as long as records are available to substantiate them. Claims are dealt with by the computer and in straightforward cases payment is made within two to three weeks. A claim form for the next period is then issued to the employer. The premium is payable only in respect of employees for whom the Class 1 National Insurance contribution has been paid (SET used to be collected as part of NI contributions). Any attempt to claim for employees for whom this contribution has not been paid is illegal. From April 1975, when NI cards are withdrawn, REP at full or half rates as appropriate is to be paid in respect of all employees who are paid for at least eight hours employment in a week.

Procedures have been established to vet both original applications for registration and subsequent claims to prevent fraud and mistakes. Originally applications for registration were approved purely on the basis of the completed application, where everything appeared satisfactory, but many mistakes were found and visits to establishments are now made in all cases by the Authorised Officers of the Department. The officers have the right to inspect wage records and to satisfy themselves as to the nature of the activities being carried on. Checks are made on all claims going back more than a year. Checks are also built in to the computer programme so that claims can be investigated where something unusual arises. Payment is

stopped automatically where it is known that the employer has gone into liquidation or when information from the Department of Health and Social Security reveals that the employer is in arrears with the payment of NI contributions. Random checks are also made on a small proportion of all claims. Notwithstanding these arrangements, the system relies to a considerable extent on the honesty of employers, who are required to notify the Department of material changes in their circumstances. The majority of prosecutions for fraud are linked with prosecution by the DHSS for non-compliance with NI contributions.

Employers have a right of appeal against the Secretary of State's refusal to register an establishment or where there is disagreement about the date of registration or the amount due to be paid. Appeals are made to Industrial Tribunals whose decision is final except that appeal may be made to the High Court (in Scotland the Court of Session) on a point of law only. The Department's view is that there is no right of appeal against a refusal by the Secretary of State to exercise his discretionary powers to aggregate or divide establishments.

II Specific schemes

Specific schemes (leaving aside the special case of Concorde) account for a relatively small proportion of Government spending on industrial subsidies. This part of the paper consists of brief descriptions of some schemes of assistance provided to individual organisations on a basis tailor-made to the particular circumstances. The following paragraphs set out the objectives of the schemes concerned and where appropriate say something about the way in which the particular circumstances of the case were appraised. It should be borne in mind that wide considerations of the national interest (eg maintaining employment, sustaining high technology) mean that the traditional forms of investment appraisal have been only a part of the Government's approach. These paragraphs also describe the terms on which the assistance is provided and the way in which the schemes are monitored. Such monitoring necessarily varies according to the circumstances of the case. It is also a developing art as Government Departments gain experience both generally and of particular cases.

Assistance to Cammell Laird Shipbuilders Ltd and Govan Shipbuilders Ltd

Objectives

The Department's principal objective in these two situations is to secure continuing employment in an efficient shipbuilding firm. This is not the same as making an investment in a major project; recently the scale of the Government's involvement in shipbuilding has been determined almost entirely by regional employment considerations although previously the objective was to promote the ability of the industry to compete in world markets. The shipyard managements have been given the task of achieving the best commercial operating performance which can be obtained within the constraints imposed by the Government's policy; this includes a budgetary constraint.

Approach to appraisal and monitoring

Both Govan and Cammell Laird are required to submit a formal long range corporate plan to be used by them and by the Department as a basic monitoring instrument. This sets out in detail what the management are trying to achieve from the use of the resources – financial, material and labour – under their control during the next four years. The more important elements of their overall planning strategy will be:

(a) market and product strategy;
(b) pricing strategy;
(c) capital redevelopment strategy;
(d) productivity improvement and industrial relations strategy,
(e) transitional problems (including, in particular, how best to phase in new capital redevelopment with the minimum of disruption to production).

It is the responsibility of the shipyard managements to find the right mix of these elements and to put the results into financial terms. The Department's job is to monitor the quality of their planning and decision making. The corporate plan – and hence the whole planning process – is updated annually.

Shorter term information

It would be less than adequate to rely on an annual updating if the Department are effectively to monitor each company's operating performance. Supplementary financial and other information is therefore required at more frequent intervals of which the following are the most important:

Monthly

Short Term cash forecast for the following three months.
Trading (Profit and Loss) Account for the previous month.

Quarterly

Trading Account and Balance Sheet for previous quarter.

Annually

Operating Forecast for current year and next two years. (This includes trading forecasts, balance sheet projections and cash flow forecasts for two years ahead and the projected financial outcome of the then current shipbuilding programme.) In each case particular regard is paid to the detailed assumptions on which financial projections have been based by the companies.

The combination of these financial and physical indicators helps the monitoring of the overall performance of the companies against their forecasts. But it has been found necessary to supplement the companies' monthly returns by regular and frequent visits to the shipyards during which trends which are noted from the returns and possible corrective action are discussed with senior managements. In addition we receive information monthly about the physical progress of the current shipbuilding programmes and the physical progress of capital redevelopment programmes.

The form of assistance – Cammell Laird

Early in 1970 Cammell Laird & Co (now called the Laird Group) faced serious financial difficulties as the result of the Group's shipbuilding subsidiary having accepted a number of loss making ship contracts at fixed prices. The then Government asked the former IRC to examine the Group's affairs. As part of complex financial arrangements, the shipbuilding undertaking ceased to be a subsidiary of the Laird Group; and the Government provided finance for the acquisition of 1½m £1 shares being 50 per cent of its ordinary share capital (now held by the Public Trustee on behalf of the Secretary of State). The Laird Group continued to hold the other 50 per cent on an 'investment' basis and agreed to provide for the foreseeable losses on the shipyard's order book up to a maximum of £7.2m with the assistance of loans totalling about £2.6m from the IRC and £0.675m from interested shipowners. The Laird Group has now repaid these loans.

In August 1971 the shareholders dismissed the then managing director and financial director from the Board of the shipbuilding company, and required the then Chair-

man to stand down. A new management was subsequently appointed by the Laird Group and Her Majesty's Government. After the new management had carried out a thorough examination of the company's affairs and presented plans for their future the Government announced in September 1972 that it would provide financial assitance to the company. This would amount to £20m in all, under Section 7 of the Industry Act, 1972, to enable the company to carry through this substantial programme of modernisation and to strengthen their position. It is estimated that the company will be entitled to receive a further £7m under the Act in the form of regional development grants and ship construction grants.

The scale of the Government's financial assistance dwarfs the company's present capital structure, and it will be necessary to reconstruct the capital of the company as part of the Government's public ownership plans. In the meantime, the Government has agreed to provide £9m to the company in the form of a temporary interest free loan – which is secured by a floating charge against all the assets of the company. The loan agreement which governs this loan gives the Secretary of State the power to prevent the company from altering an agreed capital redevelopment scheme; from borrowing money; from making a dividend distribution; from issuing new capital; or from selling its assets.

The form of assistance – Govan Shipbuilders

Following on the collapse of Upper Clyde Shipbuilders Ltd in June 1971, the Government commissioned Hill Samuel & Co to advise them about the future of shipbuilding on the Upper Clyde. In the view of the consultants a new shipbuilding entity could be established – based on three of the former UCS yards at Govan, Linthouse and Scotstoun – and under certain conditions would be capable of becoming viable. The Government accepted the consultants' report – published and laid before Parliament as Cmnd 4982 – and its recommendations form the basis of the financial funding arrangements of the new Company. The report estimated that the Company would require about £35m (at 1972 prices) from Government funds spread over a period of four to five years to enable the Company to modernise the facilities at the yards in order to bring them up to the best European standard, to fund losses and to replace working capital in the Company's early years.

On 30 June 1972 the then Secretary of State announced to the House that the Government would provide adequate financial support for the Company for a period of five years or until the Company attains commercial viability, whichever is the lesser period. This undertaking is conditional on agreements on working practices being respected by both sides of industry and the taking of ship contracts on terms acceptable to the Government. The new Company – Govan Shipbuilders Ltd – is wholly Government owned and funded. It commenced trading on 1 July 1972 and became fully operational on 18 September 1972. To date the Government has purchased £10m of equity (10 million £1 shares) and under a working capital agreement drawn up between the Department and the Company has made advances totalling £9.75m for working capital purposes. In addition, a further sum of £8.6m has been paid to the Company to meet the losses incurred by the Company to 27 December 1974.

International Computers Limited

Nature of support and background

International Computers Limited (ICL) was brought into existence in 1968 by the Government sponsored merger of the computer interests of English Electric and ICT. The merger was facilitated by the provision of £13.5m in Government grants

towards the merged company's R and D programme. Her Majesty's Government also purchased 10 per cent of the equity of the new company.

On 4 July 1973 the Government announced its decision to provide ICL with financial support of £40m in all as launching aid for the development of a new range of computers (now known as the 2900 Series). The first £14.2m had already been announced in July 1972 and the remainder was to be made available during the period up to September 1976.

Objectives
The objective of support was to maintain the development of an indigenous capability in computer systems. This, together with the fact that the support is being provided for ICL's R & D programme as a whole (although principally aimed at launching the new range of computers) has made it necessary to include the Company's overall financial and marketing performance as well as R & D progress in the appraisal and monitoring processes.

Appraisal
An extensive appraisal exercise was undertaken following ICL's request for support in 1971. Essentially their case was that the heavy burden of their R & D programme during a period when they were hoping to launch a new range of computers, fell at a time when their Profit and Loss account would not have recovered from the world wide recession which the computer industry was at that time experiencing. At the Department's request the company provided outline forecasts and detailed projections for the period 1970-71 to 1975-76.

Merchant banking advice was sought and a team of officials and management consultants worked intensively on material provided by the company and discussed this with ICL's relevant departments. The Department concluded that on ICL's sales assumptions their forecasts were satisfactory and agreed to supply the support described above.

Terms
The £40m is to be recovered by means of a levy on pre-tax profits during the seven year period starting in October 1977. In each year ICL will pay to Her Majesty's Government any profit before tax in excess of 7.5 per cent of turnover up to a maximum of 25 per cent of the profit before tax, but subject to an overall limit which in effect means that the Government's recovery will not exceed the equivalent of £40m at a discounted cash flow rate of return of 10 per cent per annum.

Monitoring
Monitoring of the R and D programme and of ICL's financial performance generally has been accepted by the company as a necessary obligation during the period of support. The aim has been, as far as possible, not to require information for monitoring purposes which the company does not produce for its own management use.

The Department's CSE division is responsible for monitoring with the assistance of a firm of management consultants on the financial side. Payment of the instalments of the aid is to be conditional upon the Department being satisfied that the progress of the R & D programme and the financial and general state of the company are reasonably consistent with the expectation of commercial success; that the company is providing a reasonable contribution to the R and D programme from its own resources, and that it does not without the consent of the Secretary of State pay more than a minimum dividend.

Financial support for Kearney and Trecker Marwin (KTM)

Objective
The objective is to maintain and secure a continuing capability in the design, manufacture and sale of numerically controlled and special purpose machine tools.

Appraisal
The continued viability of KTM was considered an essential contribution to the above objective. It was decided that this could be secured by means of reorganisation of the company's capital structure, an injection of funds and strengthening of management.

Terms
It was therefore agreed to provide up to £3.5m in financial assistance, mainly in the form of preference shares, through a new holding company in which the Government hold half the equity. Vickers Ltd also agreed to provide a loan and to undertake the management of the newly reconstructed firm, with an option to purchase a controlling interest by the end of April 1976.

Monitoring
The terms of the agreement provide the Government with reasonable access to all relevant information. Within this framework detailed monitoring arrangements have been set up and include the preparation of an action plan by the company to improve its performance in key areas and the monitoring of this plan against set targets using appropriate financial and management accounting data.

Aluminium Smelters

Introduction
Following the announcement of Special Electricity Arrangements in October 1967 the Government agreed in the following year to assist the establishment of primary smelters to be operated by British Aluminium Company Ltd (BACO) and Anglesey Aluminium Metals Ltd (AAM) under the Industrial Expansion Act 1968. The smelter companies would receive their very large power requirements at charges determined by reference to the capital and operating costs of the most advanced generating capacity currently being installed. To secure this benefit they entered into firm long-term contracts with the generating boards. The power contracts are confidential commercial agreements but under them the two companies pay a capital charge in respect of the cost of the capacity required to supply their requirements and in addition they make an annual payment to cover the operating costs of the specified generating capacity plus the cost of any marginal supplies from the grids. The Government agreed to provide loans to cover the capital contributions up to a maximum of £30m for BACO and £33m for AAM repayable over approximately 30 years. The loans are at a fixed rate of interest of 7 per cent. In addition the smelter companies were eligible to apply for grants under the prevailing regional development legislation.

Objectives
The objectives (in 1967) of promoting the establishment of primary aluminium smelters, a new industry within the UK, were national economic benefits in the form of import saving and employment in development areas.

Monitoring
Monitoring is in accordance with the provisions laid down in the relevant Agreements: books of account must be kept and made available for inspection; two copies of every Annual Balance Sheet, Profit and Loss Account and Directors'

Report presented or issued to its shareholders must be supplied plus any other information relating to the project which is required.

Pre-Production Order scheme

Introduction

The Pre-Production Order (PPO) scheme provides for:

(a) Purchase by the Department of, eg a machine tool already developed to the prototype stage but in advance of its being put into production;

(b) loan of the tool to user firms, free, their obligation being to put it into use under normal production conditions and to report on its performance in detail at regular intervals;

(c) eventual sale of the tool (depreciated) or lease where possible to the user;

(d) since early 1972, re-imbursement of outgoings by a levy on the manufacturer's subsequent sales (which are assumed to have been assisted by the free trial at the Department's and user's expense).

Note: In April 1969 the PPO scheme was extended beyond the field of machine tools to include other types of manufacturing equipment. However the comments and data given below are restricted to the scheme's application to machine tool development.

Objective

The purpose of this scheme is to accelerate the introduction into productive use of more efficient equipment. The gains to the economy which are sought are the more efficient use of resources by users, the more rapid release of the manufacturer's resources for further investment, import-saving and export potential.

Appraisal

The criteria for selection of equipment appropriate to the PPO scheme have been somewhat amended since the scheme's inception in 1965. Originally machines were required to embody a significant advance in performance and to include a relatively high degree of innovation. From 1967 the absolute requirement of outstanding technical advance was relaxed but tools were still to be genuine new models with significant improvements in overall performance. Since 1969 there has again been some tightening of the technical criteria.

The Department also has to be satisfied that the users selected and the market survey in each case are such that the objective is likely to be achieved.

Scale of the scheme

To date the Department has entered into more than 60 contracts worth about £5.5m.

Recovery

As mentioned above recovery of the Department's outgoings (less the proceeds of sales of machines under trial) is now by way of levy. The levy terms are calculated on the basis of the Department recovering its outgoings, currently on a 10 per cent dcf basis, in successful cases. (In very successful cases a greater return is achieved; in unsuccessful cases they may be no return.) The levy terms are not calculated on a constant price basis but since sales receipts are affected by changes in price levels it is assumed that recovery will approximate to real terms.

Monitoring

User companies are required to supply monthly technical and financial reports and a final report on completion of the Agreement. The 'Project Officer' examines these reports and also keeps in touch with progress on the projects by visits to the

Manufacturer's and User companies' premises, and by discussion with their representatives. He is also responsible for bringing to the notice of the Manufacturers and Users any aspects of the work on the project on which he considers that their proposals or actions are not sufficient to secure the timely achievement of the project objective.

Aircraft launching aid

Introduction

Launching aid for civil aircraft has been a policy of successive Governments since the war; current procedures date from 1960. In brief, launching aid is an investment by the Government towards costs of launching civil aircraft or aero-engine projects: this investment is recoverable by a levy on sales. Launching costs comprise the cost of design and development, production jigs and tools, and 'learning costs' (ie the higher manufacturing costs incurred in the early production stages whilst workers are learning their jobs). The Government's contribution is an agreed proportion of the launching costs as estimated at the outset, normally not more than 50 per cent. Under the normal procedure launching aid is not increased if the estimate is exceeded, except to take account of inflation. In return, the Government receives as a levy on sales of aircraft/engines and spare parts a share of the margin, either forecast or actual, between the selling price and the manufacturing cost. This margin, and the Government share, is normally fixed at the outset (subject to review arrangements in some cases). The intention behind the arrangement is that production risks, as well as the risks of a cost over-run on development should lie with the manufacturer, so that for example, if manufacturing costs exceed estimates and erode the actual margin, the margin sharing recovery formula will protect the Government levy. Risk and the possibility of profit should thus remain with the manufacturer and provide a commercial incentive and a spur to exercise commercial judgement.

Objectives

The objective of this form of financial assistance is to maintain a strong and efficient aircraft industry in the UK with an advanced technological base.

Appraisal

To some extent the approach to appraisal varies from case to case to take into account wider policy considerations, the non-financial contribution of the firm, and the extent of risk born by them. In recent cases the basic 'yardstick' has been whether on central predictions of sales, cost and price the project could be expected to achieve a rate of return of 10 per cent in real terms. When cases have been supported which have not fully met this test wider considerations of policy have been involved.

Monitoring

Monitoring of civil aircraft projects falls under two heads: monitoring the project which is largely technical; and monitoring the company which is largely financial. In the former sense the Ministry of Defence (Procurement Executive) (MOD/PE) manage civil aircraft projects on behalf of the Department. This means that the Government can deploy on civil aircraft projects more powerful resources for technical appraisal and monitoring than are available in other sectors.

On the financial side, when possible, there are built-in incentives to the firm to make a success of the project, and it is hoped to limit monitoring to what is needed to give early warning that either the firm or the project are running into trouble.

Flexibility
Contracts normally contain 'break' clauses and agreed arrangements for dealing with changes in technical requirements.

Return
As was pointed out above this is typically obtained via levy on sales and other commercial receipts from the aircraft. The arrangements for the HS 146 for example very broadly provided for the sharing of the profit margin on sales and leases of aircraft and spares. These provisions were expected to permit the Government to recover its investment in real terms at 10 per cent DCF.

Parliamentary scrutiny

With all subsidy schemes, Ministers and Departments have to account to Parliament for the exercise of the statutory powers and for the control they exercise over the public funds which are made available to them. This accountability is operated in various ways:

(a) *Parliamentary debate*. Areas of policy, elements of Government expenditure and particular statutory powers may all be the subject of debate on the floor of the House of Commons and Ministers have to explain, justify and defend their actions and those of their Departments. Specific opportunities for debate arise on the annual Estimates when debate tends typically to be on policy and not just figures; sometimes on the Annual Reports which are required to be made to Parliament on some subsidy schemes, eg the Industry Act Annual Report; and sometimes on the reports of Parliamentary committees.

(b) *The Public Accounts Committee*. Officials of the Exchequer and Audit Department (E & AD) have access to Departmental files and officials in carrying out their regular checks not only on propriety in the expenditure of public money but also the general efficiency and effectiveness with which it is administered – ie the 'value for money'. On the basis of briefing provided by E & AD, the Public Accounts Committee summons officials to its hearings to explain and defend their Departments' general systems and their actions in specific cases; for example, of the measures described in this paper Investment Grants and assistance to shipbuilding have received a fair amount of attention from the PAC. The Committee's reports are often important in influencing Departments' practices and procedures.

(c) *The Expenditure Committee*. While having no separate Department to service it and no automatic access to Departmental files, the Expenditure Committee and its sub-committees – particularly for this purpose the Trade and Industry Sub-Committee – have the right of Parliamentary Select Committees to call for persons, papers and records, ie to summon Ministers and officials to their hearings and to receive written evidence from elsewhere. The Expenditure Committee roams fairly widely over policy matters – the justification for and results obtained from expenditure – and is less concerned with investigating narrower questions such as whether statutory provisions are being properly observed (though this should not be regarded as implying that the PAC restrict themselves to such issues).

(d) *Parliamentary Questions*. Ministers have to be ready to answer oral and written questions about the powers they exercise.

(e) *The Parliamentary Commissioner for Administration* (PCA). The PCA or Ombudsman is empowered, if so requested by an MP, to investigate complaints by members of the public claiming to have suffered injustice as a result of maladministration by Government Departments. He too has access to Departmental files in pursuit of his enquiries.

The existence of these different forms of scrutiny has considerable implications for administration. They require information systems to be devised to provide the necessary data for Annual Reports, for Parliamentary answers, for Ministers' use

in debates, and for the appearances of both Ministers and officials before Parliamentary committees. Hitherto the information has been of a statistical nature: amounts of grant spent broken down by region and by industry, jobs created by selective assistance and so on. Information on individual cases has been regarded as confidential, although Parliamentary committees have a right to such information and have in some cases published the names of individual firms. From this year, however, lists of the major payments of RDG and offers of selective assistance under Section 7 of the Industry Act 1972 to individual firms are to be published quarterly since the present Government believe that Parliament and the public are entitled to this information. On the other hand information about the tax affairs of individual companies will continue to be kept strictly confidential by the Inland Revenue. Quite apart from the need to produce systematic data on subsidies, Parliamentary controls occupy a great deal of administrative time in other ways. It is hoped that the benefits in the form of the continuing pressure on Departments to examine and justify their actions amply repay the cost of the time involved.

Conclusion

Successive governments in recent years have taken the view that the use of general schemes of Government financial support and subsidy of the kind described in Part I of this paper is the only practicable way of doing things on a large scale. Action directed towards increasing investment throughout the country, or towards helping employment throughout the Assisted Areas can only be taken in a standardised way. The specific approach is adopted where the general approach is inadequate and where the Government have more specific objectives in view. Thus the Government had to step in with tailor-made packages of assistance when the availability of general subsidies proved insufficient to preserve the big shipbuilding companies on the Clyde and the Mersey. The specific approach has also been adopted in cases where the Government is interested in promoting the product of an industry or a firm rather than in general objectives of promoting investment and employment *per se*. Examples of this category are the aid to aluminium smelters and to ICL; launching aid; and Kearney and Trecker Marwin. These are often industries where the starting costs of new projects are high and the financial return slow to come in; and where the Government are concerned to retain or promote advanced technologies. In some cases the creation or protection of employment is an additional objective.

The present Government's proposals for a new Industry Bill, and the use which they have already made of the selective assistance powers in Sections 7 and 8 of the 1972 Industry Act suggest that there will be more concentration on the specific approach to the subsidisation of industry. At the same time the retention of the 100 per cent first year depreciation allowance for industrial plant and machinery, of Regional Development Grants and of the Regional Employment Premium indicate that general subsidy schemes will continue to play a very important part in the Government's policies towards industry.

RECOMMENDATION OF THE OECD COUNCIL ON A GENERAL EMPLOYMENT AND MANPOWER POLICY

The OEDC Council,

Having regard to Article 1,2, 5 (b) of the Convention on the Organisation for Economic Co-operation and Development of 14th December, 1960;

Having regard to the Recommendation of the Council of 21st May, 1964, on Manpower Policy as a Means for the Promotion of Economic Growth;

Having regard to the Report of 11th June, 1975, of the Manpower and Social Affairs Committee on Future Orientation of OECD Activity in the Field of International Migration and, in particular, the Annex thereto;

Having regard to the Report of the Manpower and Social Affairs Committee on a General Employment and Manpower Policy of 3rd March, 1976, hereinafter called the "Report of the Manpower and Social Affairs Committee";

On the proposal of the Manpower and Social Affairs Committee at Ministerial Level of 4th and 5th March, 1976;

1. ENDORSES the views expressed in the Report of the Manpower and Social Affairs Committee;

2. RECOMMENDS that Member countries periodically examine, in the light of the report of the Manpower and Social Affairs Committee, their general employment and manpower policy so as to attain the objective of full employment, in particular by:

   (a) continuing implementation of the principles of an active manpower policy contained in the Recommendation of the Council of 21st May, 1964, referred to above, reinforced by a general and positive strategy for creating and maintaining employment and improved conditions of working life for all those who are able and want to work, with the support of relevant economic, employment, manpower; and social policies;

   (b) the close linking of employment and manpower policy and general economic policy, with the aim of achieving full employment objectives and improved quality of working life in the context of social and economic progress;

   (c) systematic use and evaluation as appropriate of selective employment and manpower measures, with the objective of achieving and maintaining high levels of employment and balance between the supply and demand

of labour in ways which contribute as much as possible to the struggle against inflation;

(d) special assistance to disadvantaged groups to enter, remain in or return to employment, thereby promoting more equity in the distribution of employment opportunities and income;

(e) balanced development of income maintenance, and of positive manpower utilisation measures which insure the earliest possible return to employment, on the basis that it is preferable to spend money on activities which contribute to the expansion of employment;

(f) international co-operation in order that national employment and manpower policies and free international trade and investment are mutually consistent, so as to minimise the social costs of adjusting workers to strucutural changes which result from changing patterns of international trade;

(g) implementation between the OECD countries concerned of the guiding principles (*) for facilitating the orientation of migration policies and their concentration at international level;

(h) organisational arrangements within national administrations for the coordination of all elements of policy affecting employment and manpower, in particular so that manpower authorities may help to ensure that the various elemements of an employment strategy are taken into account in all fields of social and economic life;

(i) continuing co-operation and involvement of workers, employers and their representatives as an important aspect of total manpower and employment policy.

3. INVITES Member countries to report to the Organisation on steps taken by them to implement this Recommendation, not later than the 31st March, 1977, and subsequently at intervals to be determined by the Manpower and Social Affairs Committee.

(*) As formulated in the Report of the Manpower and Social Affairs Committee on the Future Orientation of the Activity of the Organisation in the Field of International Migration referred to above, the OECD countries concerned being defined as those which have adhered to the Council's Decision governing the employment of nationals of Member countries.

Paris, March 6, 1976

Reprint from the Report on the Development of the Social Situation in the Communities in 1975, Commission of the European Communities, Brussels April 1976

Chapter I

Employment

(*including migrant workers*)

Trends within the Community

51. 1975 saw *unemployment* in the Community countries reach the highest levels in the Community's history.

While unemployment had started to rise early in 1973, by the beginning of 1974 its effects were still limited to the Federal Republic of Germany, France, the Netherlands, Belgium and Denmark.

By the beginning of 1975, however, unemployment was on an upward trend in all countries and had accelerated in those countries where the increase had occurred in 1974.

Because of differences in national classifications and methods of obtaining unemployment data, comparisons between developments in different countries need to be made with caution.

Nevertheless, some five and a half million people were registered as wholly unemployed in the member countries at the end of 1975, an increase of 35% above the already very high level at the end of 1974. Nevertheless, since the end of the summer, the increase in unemployment in the majority of the Member States has reflected a trend of deceleration attributable to the recovery of activity in certain sectors.

In addition, a new phenomenon — *short- term working* over long periods — has emerged, with increases of 300 or 400% being experienced throughout the year in some countries.

Unemployment in all countries has affected *all groups* — young, old, women, migrants — to some degree, more or less. In particular, new entrants to the

labour market — school leavers and qualified students — have found great difficulty in finding a first employment, particularly one suited to their educational level.

1975 was not an easy year for the *ECSC industries*. Employment in the coal industry was largely maintained as a result of the switch in fuel following the oil crisis. The steel industry, however, sufferred considerably from the recession and the fall in investment demand. Nevertheless, by moving more of the labour force into internal maintenance and repair work, and by opting for short-time working for many rather than unemployment for some, the industry largely avoided redundancies in the labour force, other than through natural wastage.

In the face of these difficulties, all countries have taken *measures* — frequently to deal with specific problems, such as those of getting school leavers into the labour market for the first time, or how to maintain the income of workers on short-time. Hence the year has been marked by the introduction of an important number of measures regarding the labour market; the majority of Member States have taken global action to support activity and in all countries specific measures to support fixed investments have been put into effect. Nonetheless, concern that inflationary pressure could be revived has limited the use of global regulations as an instrument.

52. The information available for 1975 in the Community confirms the signs, which appeared at the end of 1973, of a fall-off in the sharply rising trend of migration observed during the previous 10 years.

The immigration policies of the Member States aim firstly at stabilizing — if not slowing — immigration and are justified not only by the present economic situation, but also in many cases by the inability of the social infrastructure to handle an unlimited influx of workers to satisfy the requirements of the labour market; secondly, they are designed to promote the integration of foreign workers into the sociocultural environment of the host country.

In addition, despite the widespread unemployment, which has affected foreign and national workers to the same extent, the tendency for foreign workers to return to their countries of origin when the economic outlook changes does not seem to have reached the expected proportions, according to the limited data at present available.

TABLE 6

53. **Number of wholly unemployed registered in employment services in the countries of the European Community**

(yearly and monthly averages)

(thousands)

Year Month	Belgium	Denmark	FR of Germany	France	Ireland	Italy	Luxembourg	Netherlands	United Kingdom
Yearly averages									
1970	71.3	23.9	148.8	262.1	64.9	887.6	0.0	44.5	618.0
1971	70.9	30.0	185.1	338.2	62.5	1 038.1	0.0	62.0	799.1
1972	86.8	29.9	246.4	383.5	72.0	1 047.8	0.0	107.9	885.5
1973	91.7	20.3	273.5	394.1	66.6	1 004.8	0.0	109.9	630.3
1974	104.7	44.5	582.5	497.7	70.6	997.2	0.0	134.9	631.0[1]
1975	177.4	103.7	1 074.2	839.7	98.0	...	0.3	195.3	1 013.7
1974									
December	140.1	101.5	945.9	723.4	83.9	1 024.4	0.1	180.8	.[2]
1975									
January	147.8	123.2	1 154.3	765.7	91.1	1 104.3	0.1	197.8	776.4[3]
February	153.3	107.8	1 183.5	769.9	93.7	1 097.6	0.2	200.3	791.3
March	156.0	109.7	1 114.0	754.8	94.6	1 087.5	0.1	190.3	802.7
April	160.3	107.7	1 087.1	757.3	95.6	1 080.3	0.1	183.5	939.9
May	161.1	93.2	1 017.7	736.9	95.7	1 077.9	0.1	173.4	850.3
June	162.0	83.7	1 002.1	738.3	96.2	1 083.7	0.1	176.5	869.8
July	172.3	73.7	1 035.2	765.6	97.1	1 074.3	0.1	191.4	1 087.9
August	174.4	92.5	1 031.1	797.0	100.3	1 056.6	0.1	193.9	1 250.4
September	186.0	96.5	1 005.5	945.8	99.3	1 140.1p	0.3	195.5	1 249.3
October	208.9	103.4	1 061.1	1 015.6	101.1	1 158.4p	0.6	201.5	1 165.4
November	217.2	108.1	1 114.2	1 020.1	104.6	1 160.2p	0.6	211.0	1 168.9
December	229.0	137.9	1 223.4	1 009.7	107.1	...	0.6	228.6	1 211.5

p = Provisional figure.
[1] Annual average calculated on the basis of 11 months only.
[2] Not available because of a labour dispute in the employment agencies in Great Britain.
[3] Estimation.

Development of the situation in the member countries

Belgium

54. In the face of rapidly rising unemployment during the year, caused by the recession in internal demand, and aggravated by Belgium's dependence on export demand, the Belgian government has entered into various negotiations with the *social partners* to seek solutions to their problems.

The government submitted the draft law concerning measures of economic readjustment on 12 December 1975 to the Chamber. This 'readjustment plan' is made up of six sections. The first provides for extension of the notion of the closure of an undertaking to cover restructuring resulting in a considerable number of dismissals; as well as specific measures to facilitate the employment of young people, and especially those under the age of thirty years who have not yet been employed since completion of their studies. In addition they set up, as an experiment, a system of anticipated pensions on request for male workers who are at least 62 years old and for female workers who are at least 58 years old, each worker eligible for anticipated pension having to be replaced by a worker who is under thirty years of age. Two other chapters deal specifically with the aspects of an incomes policy. They include also measures concerning the redistribution of social charges by reducing certain contributions. [1]

55. The employment situation, together with the legalization of the position of illegal *immigrants*, led the authorities to continue the ban on immigration, except as regards highly skilled workers. During the first nine months, only 3 138 new work permits were issued to immigrants from non-member States; these were for jobs demanding high skills, for employment in jobs for which workers were not available on the Belgian labour market as well as for the newly arrived members of a worker's family where that worker was in a possession of a work permit of unlimited duration and valid for all occupations.

The legalization measures have meant that the position of about 8 000 illegal entrants has been regularized.

At the end of September 1975 the unemployment rate was already 11.9% for immigrant workers (in absolute figures, 27 500 were unemployed), whereas the overall unemployment rate for the country during the same period was 7% (in absolute figures, 186 000). Among the unemployed immigrants were 14 700 Italians and 2 200 French.

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[1] Chapter V, point 162.

Denmark

56. During 1975, Denmark has been subject to the most serious recession since the war. In the face of this, and despite political difficulties, a number of measures have been taken.

Within the framework of a programme intended to stimulate household consumption as well as private and public investment and to introduce a prices and incomes policy, value added tax on most goods and services was reduced from 15 to 9.25% for the period from 29 September 1975 until 29 February 1976; this reduction implies a temporary drop of 3.6% of total consumer prices.

Within the framework of the 1975/76 Finance Act, a special reserve of Dkr 575 million was set aside for measures to increase employment. For the building industry, this included grants or loans for residential property improvement, slum clearance, mortgage credit improvements and help for building up exports.

For industry, this covered loans to small firms, State guarantees for loans, and the setting up of an Aid Fund for firms in difficulties. Support for regional development has also been increased and improvements have been made in the provision of export credit.

In addition, Dkr 17 million has been granted to the Ministry of Education and Dkr 30 million to the Ministry of Labour for the implementation of special employment measures and training activities for young unemployed.

Furthermore, in September, the government allocated more than Dkr 2 000 million of which Dkr 500 million are specifically for measures to improve employment and Dkr 1 100 million to encourage investments.

To assist the unemployed, various improvements have been made regarding the unemployed insurance schemes, notably in the reduction of the qualifying periods and conditions. It has also been agreed that, over the longer term, the possibility of extending unemployment insurance to cover the self-employed should be pursued.

The high unemployment level has caused a big increase in the work of the employment service. Like most Government activities, the employment service has been affected by attempts to cut public spending but consent to boost personnel by more than 100 new positions has been given.

In public relief work, priority is given to those persons who are due to lose the right to unemployment benefits and to young unskilled people. The local authorities are responsible for organiizng this work.

57. As regards ***migrant workers***, the decision to suspend immigration other than from Scandinavian countries or from the Community was maintained throughout 1975.

Federal Republic of Germany

58. In the FR of Germany the economic situation in 1975 was marked by a number of conflicting factors. It is difficult to form an exact idea of the short- and medium-term *outlook*.

The decline in economic activity continued for most of the uear. However, some improvement in the economic climate could be seen during the fourth quarter, since the conditions for a recovery were becoming evident as a result of the economic and financial measures taken by the Government.

As far as the labour market is concerned, this positive effect has not yet been reflected in an improvement in the employment situation. *Unemployment* had risen at the end of December to 1 223 400, 5.3% of the total number of wage and salary earners.

Women were particularly affected by the decline in the employment situation; a third of all women workers were looking for part-time employment, which is particularly difficult to find during a period of recession.

Unemployment of young persons aged under 20 continued to increase throughout the year — but at a slow rate compared with other groups — particularly amongst young people who already had a first job, and even amongst those with occupational qualifications. Because of the lack of training places for young people in industry, the Federal Labour Office (Bundesanstalt für Arbeit) decided to expand the volume of its financial interventions to Institutions which provide young unemployed persons with basic training courses.

In December 1974 in the face of the rapid decline in employment, the public authorities adopted urgent measures to counteract unemployment[1] as part of the 'programme for relaunching the economy and maintaining stability'. A budget of DM 600 000 million was earmarked for this purpose.

This special *programme* launched by the Federal Government in December 1974 was conclued in June 1975, but has not provided the hoped-for results.

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[1] Social Report 1974, point 74.

Since the Federal Labour Office's deficit had been greatly increased it was found necessary to increase the rate of contributions from 2% to 3% of wages and salaries for 1976, which would enable an additional sum of DM 3 600 million to be mobilized. Additional resources have also been made available by the Federal Government.

Since it is unlikely that the employment situation will improve rapidly — even if the recovery work is not too long delayed — the public authorities seem set upon acting directly on labour supplies rather than on demand.

59. Following the complete ban on immigration from non-member countries (approximately 17 000 persons during the first nine months of 1975, of whom 5 300 came from those countries with whom the FR of Germany has agreements for manpower) and as a result of the pressure of unemployment (133 000 foreign workers unemployed at the end of September 1975), the number of *foreign workers* in employment in the FR of Germany fell to approximately 2.1 million at the end of the third quarter, i.e. a reduction of 500 000 compared with September 1973 and 250 000 compared with September 1974.

It will be observed that the unemployment rate for foreigners (5.5% in September and 6.2% in November) continued to be higher than the overall rate (4.4% and 4.9%).

Aa part of the attempts to curb illegal immigration, a law providing for severe penalties entered into force on 1 July 1975.[1]

In addition, to avoid over-saturation of certain regions with an excessive population concentration, provisions have been in force since 1 April 1975 regulating access to these regions by foreign workers from non-member States.

In 1975 the recruiting agencies of the Federal Labour Office in the countries of emigration[2] have been closed with the exception of those in Italy.

France

60. Continuing the trend in 1974, *unemployment* continued to rise quickly throughout 1975. Men and women were equally affected, but the position of the young worsened relatively to that of elder workers.

An important initiative by the State to deal with unemployment has been the system of payments from national employment funds to certain industries or companies to maintain their labour forces by reducing their hours of work in order

[1] Social Report 1974, point 73.
[2] Spain, Greece, Morocco, Portugal, Tunisia, Turkey, Jugoslavia.

to avoid mass redundancies. Under this, the State can become responsible for up to 90% of the benefits for which a company is liable for people on short-time.

At the same time, new economic *measures* have been undertaken, involving some FF 30 milliard to encourage investment and consumption, action to support Peugeot-Citroën, and the encouragement of house-building.

Further measures, directly related to labour market operations undertaken during the year, included:

— the re-organization of the employment service structure with the creation of a group responsible for developing and coordinating employment policy, and the creation of new National Employment Agency units;

— bonuses to encourage firms to recruit additional employees without causing dismissals;

— measures to get young workers into jobs, notably by the setting-up of employment-training contracts, allowing young workers to study during working hours. For this, the State gives aid [1] to the Company, with priority for 16-20 year olds; improved income support for young people and their families;

— improved consultation over dismissals due to economic factors (law of 3 January 1975);

— improved income guarantees for redundant workers and older workers.

61. The French authorities also maintained a ban on *immigration* from non-member countries in 1975 (11 551 authorizations issued during the first nine months of which almost 75% were legalizations). However, families have once more been authorized to enter since 1 July 1975.

The immigration of Algerian workers has not yet been re-established.

Within the framework of an integration policy for those workers who have been granted admittance, a law has been approved whereby the prohibition imposed upon the employers, preventing them from appointing a foreign worker before the expiration of the work contract, has been done away with whilst the decree of 21 November simplifies the regulation in respect of work permits by replacing the seven types of card used by three.

A legal commission was set up in June 1975 under the name of the 'Commission for the Protection of Migrant Workers'; it is directly responsible to the Secretary of State for migrant workers. The main task of this Commission is to coordinate

[1] Chapter II, point 84.

the measures taken by the various authorities in combating illicit traffic in manpower and the illegal employment of foreign workers, and also to gather information on these matters, and draw up proposals to improve penal and labour legislation.

On 30 September 1975, 95 200 foreign workers were unemployed against a total of 945 800 for all workers. The unemployment rate for foreign workers (5.0%) remains slightly above the overall rate (4.5%).

Ireland

62. The employment situation has deteriorated continuously during 1975, and the National Economic and Social Council has estimated that total employment in 1975 is around 5% lower than in 1974. The reductions in employment in the main sectors are estimated at 2% for agriculture, 4% for services and 7% for industry.

The situation in Ireland has been adversely affected by a number of factors including the general slump in world trade and keener price competition on export markets which have had an impact on exports. The low level of internal demand has been an important factor of recession.

Unemployment has increased in virtually all industries. The biggest increases between the end of 1974 and end of 1975 have occurred in general building, metal manufacturing and engineering, clothing and footwear, textiles and vehicles.

The number of redundancies notified to the Department of Labour under the Redundancy Payments Scheme in the 12 months ended 30 September 1975 was 18 480. This was more than double the figure in the corresponding period that ended 30 September 1974.

63. In its second Budget for 1975, the Government announced certain *measures* to deal with the unemployment situation. These include a 'Premium Employment Programme' to encourage the re-employment in manufacturing industry of workers who have lost their jobs as a result of the recession. The premium is £ 12 a week per employee until 31 March 1976 and £ 6 from 1 April to 30 June 1976.

The budget also makes provision for an additional 6% to the Public Capital Programme, bringing the total for 1975 to £ 490 million. The allocation of this increase was to be: housing (£ 10.5 million), telephone development (£ 8 million), industry (£ 5.25 million) and agriculture (£ 3.5 million). At the same time, the Commercial Banks are to make available £ 40 million over two years for house-purchase loans. For young people, a scheme was introduced at the end of the year

under which those under 25 who were unemployed or who wished to leave agriculture have the opportunity to take a training course of 9 to 15 months duration.

Italy

64. Any assessment of the Italian economic and social situation is made difficult by the complexity of the factors involved, which are the more numerous in that Italy has been affected by the ***recession*** at a time when the country was passing through a period of profound structural change.

Generally speaking, the Italian economy has been able to absorb the effects of the recession, partly as a result of the implementation of economic recovery measures (particularly in the monetary and budgetary spheres) and partly because of certain traditional characteristics of the Italian labour market, in particular the abnormal growth of non-institutional employment (several jobs, work at home, seasonal work, etc.).

It should be underlined, however, that there has been a very sharp deterioration in the situation of the active population, even if, of the countries in the EC Italy is the one which apparently experienced the lowest growth in *unemployment*, i.e. 13.7% between December 1974 and December 1975.

This figure understates the deterioration of the labour market situation, since this mainly took the form of an increase in short-time working, as is borne out by the massive scale of the contributions from the Cassa Integrazione Guadagni.

Young people were particularly hard hit by the decline in the labour market. More than 75% of those looking for their first job and 31.6% of the totally unemployed were aged between 15 and 21, i.e., a total of 376 200 young people, including 146 400 women. It should also be noted that of these young people, around 30% had leaving certificates from secondary schools and 7% were university graduates i.e., 37.6% of the whole category. At the other end of the scale, more than 50% of all unemployed persons held only primary school certificates.

Lastly, in the first six months of 1975, about 25 000 Italian migrant workers returned home voluntarily. This phenomenon may continue as long as the economic situation in the host countries continues to be unfavourable.

65. Several ***agreements*** between both sides of industry and the public authorities have been concluded, to increase compensation for workers who work for less than the normal number of hours; to make this possible, the various systems so far used as a basis for contributions from the Cassa Integrazione Guadagni were

brought into line. These measures are intended to guarantee short-time workers a reasonable income and enable the process of industrial restructuring to continue. In accordance with the provisions of the new law approved in the Spring, the Fund will use one single procedure based on 88% (instead of 66.6%) of earnings lost in relation to a 40-hour working week.

The methods of financing the Cassa have undergone considerable modifications following which companies must meet certain conditions in seeking assistance.

Since it is intended to ensure workers a higher level of income in cases where work is interrupted or reduced, it is envisaged that the increased benefits will be met by a payment by the firms who take part of 8% of workers salaries (4% in the case of small or medium sized firms).

The Italian Government has also taken *measures* during the year to stimulate activity and above all to create new jobs in the building sector. A draft law is also being prepared to set up a central agency for planning employment and regional placement services.

Luxembourg

66. 1975 saw the sharpest *decline* in production and employment experienced in the post-war years. Steel production was down by more than 25% compared with 1974 whilst the GNP dropped by about 7.5% in real terms.

It was still possible to maintain full employment, however, by means of two types of *measures:* the paying of compensation to small- and medium-sized undertakings affected by short-time working and, from September, the organization of work in the public interest intended to provide work for 10% of workers in the iron and steel industry who have maintained their links with their undertakings. These measures were the fruit of close collaboration between the Government and both sides of industry in a special joint committee[1] for short-term economic activity.

A law of 26 July 1975 provided for a first appropriation of Lfrs 250 million for measures to maintain employment; in December, real expenditure amounted to Lfrs 600 million.

67. For the first time in many years there was an appreciable fall-off in *immigration* in the absence of job opportunities, to the extent that only highly qualified workers were still allowed to enter.

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[1] Chapter III, point 104.

Finally, the Luxembourg authorities continued their endeavours to assist migrant workers to find accommodation.

Netherlands

68. The optimism shown by the authorities at the end of 1974 with regard to an economic recovery during 1975, gave way to the realization that the problems afflicting the whole system of production are more deep-seated and that there was an imbalance between the growth of the working population and the number of new jobs which industry is at present able to create.

In this unfavourable context, *unemployment* increased in 1975 to 5.8% of wage and salary earners in December 1975. The increase in unemployment has been particularly noticeable in the metal-working and textile industries as well as in commerce and administrative occupations.

As in neighbouring countries, the percentage of women unemployed has increased at a greater rate than that of men.

69. Government *measures* set out in the economic recovery programme adopted on 16 November 1974, had some positive effects in the building and construction sector.[1]

In April a further Fl. 1 000 million was set aside by the Government to stimulate activity in the building industry; in addition Fl. 80 million were granted to the municipality of Amsterdam to counteract structural unemployment.

The Government was primarily concerned with promoting as far as possible the creation of new jobs in particular by means of subsidies to employers to encourage them to take on unemployed workers.

Special regional or sectoral premiums (textiles, clothing industry) were also granted to undertakings whose sales were declining and to encourage them to restructure their operations.

However, the Government measures which were also greatly intensified as regards the placement services have had only a marginal impact on unemployment.

In September, when the State budget for 1976 was presented the Government announced new measures to stimulate the economy and for improving the employment situation.

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[1] Social Report 1974, point 99.

70. A major concern of the public authorities is the growing number of *young persons unemployed.* At the end of November 1975 there were 67 600 job seekers aged under 23. This phenomenon without doubt is partly due to the extension of the period of apprenticeship from 3 to 4 years and partly to the introduction of minimum wages for young persons.[1] Unemployment among university graduates is a special case, in so far as it reflects the inadequacy of the educational system to meet the demands of the economic life of the country. The Government has twice allocated sums of Fl. 20 million to the campaign against unemployment amongst young people. Special projects were also implemented for young unemployed persons aged 15 to 20.

71. As regards *immigration* in 1975, three particular factors should be noted:

— the 50% increase in immigration from Surinam;

— regularization measures in favour of illegal migrant workers (over 11 000 legalizations up to mid-November);

— the pursuit of a restrictive immigration policy based on a strict control over the entry and employment of foreign labour from non-member countries.

Over and above the granting of new work permits to nationals of countries, whose citizens are already regularly resident in the Netherlands, and the regularizations, 886 foreign workers from non-member countries in the Mediterranean region were recruited during the first nine months.

On 30 September there were 114 400 valid work permits on issue, of which 48 700 were held by workers who have been employed for more than five years. At the end of September 1975, 8 200 foreign workers were registered as unemployed (5.9%) against an overall total of 195 500 (4.8%).

United Kingdom

72. During 1974, employment was much less affected than in most other members of the Community. However, early in 1975 it became clear that this was just a delayed reaction, and did not reflect any sort of immunity to the effects of the world recession.

In the winter of 1974 and 1975, the trend of *unemployment* started moving strongly upwards, and there was a very large increase in short-time working.

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[1] Social Report 1974, points 96 and 97.

73. Government *action* in the employment field has been restricted because of the Government's declared policy not to worsen the inflationary situation by reflationary measures. It has concentrated on selective actions to improve the efficiency of the labour market (e.g. by facilitating labour mobility), to give special help to those groups, areas and industries which have been hardest hit, and to try to ensure — in particular by expanding training — that economic recovery is not jeopardized by shortages of skilled labour.

In Government designated 'assisted areas' where there is high unemployment, the Government began in August to make available a subsidy of £10 a week per head to industry and to commercial firms for three to six months on condition that they refrain from making particular employees redundant.

On 24 September a new package of measures was announced, aimed at creating an additional 100 000 jobs over the following 18 months. The cost of this was to be £75 million for short-term measures, and £100 million for increased investments.

The package included the following specific measures:

(a) Extension of the temporary employment subsidy to the whole country.

(b) A subsidy to companies of £5 per week per place for the first 26 weeks of employment for unemployed school leavers and students

(c) An additional £30 million to the Manpower Services Commission to create 15 000 new jobs in projects of community interest.

(d) An additional grant of £20 million to the Training Services Agency for training schemes designed to avoid skill bottlenecks in the future.

(e) Supplementary aid for the employment transfer scheme which assists unemployed workers to move to areas where jobs are available.

(f) The allocation of £100 million by the Government to aid companies to carry out modernization, or for the building of new factories.

(g) £32 million for public sector building projects.

In November an important tripartite conference under the auspices of the *National Economic Development Office*, brought management, trade union and Government representatives together to prepare a common industrial strategy for 1976.

On 17 December 1975 various measures such as those concerning the subsidies during temporary unemployment, the extension of the job creation programme, temporary import controls in the textile, clothing and footware industries, the easing of hire purchase facilities as well as the financing of a £70 million steel stock-building programme were announced.

74. As regards the controlled *immigration* policy for workers from non-member countries, the British authorities announced at the beginning of 1975:

— to set the annual quota for the catering industry at 8 500 for 1975;

— to fix the maximum number of work permits which may be issued to domestic and hospital staff at 8 000.

In the first nine months 27 000 work permits were issued as compared with 29 000 during the same period in 1974.

Sector Policy: The Case of Swedish Shipbuilding

by

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INTRODUCTORY NOTE

The focus of the Conference being Financial Support Schemes for Maintaining and Expanding Employment in the current economic scene, the attention of the participants is called to the following differences of context: (1) Because of the international character of shipbuilding, policy measures have to be conceived and evaluated in a broader frame than the national one. (2) The present crisis of shipbuilding (and shipping), being essentially due to structural and not conjunctural developments, will no doubt persist for some years after the recession in the industrial countries of the world is overcome.

DESCRIPTION OF SITUATION

For the world's shipbuilding industry the last two decades - in effect since the first Suez-crisis in 1956 - have been a period of intense development both quantitatively and qualitatively. The following factors stand out as specially important during this process:

- that world trade was vigorously expanding, especially what concerns oil and industrial raw materials (in contrast to the situation between the two world wars);

- that therefore the requirements for ships were growing strongly and steadily;

- that the demand for ships was characterized by specialized and progressively bigger tonnage (mostly tankers and bulk);

- that shipbuilding capacity expanded through establishment of new yards (mostly in Japan) and extensive rationalization and modernization of older yards (mostly in Europe);

that over the whole period ship markets were marked by strong international competition, frequently distorted by subsidies to shipbuilding.

The events on the oil market in the autumn 1973 radically changed the prospects for shipping and shipbuilding. An acute and probably lasting imbalance appeared on the oil freight market. One fifth of the tonnage of tankers is laid-up. Freight rates are firmly established at levels which scarcely pay for bunkers and salaries. The shipowners' liquidity (and profitability) deteriorates quickly. To their financial costs for already delivered ships will be added during 1976 and 1977 down-payments and interest on new tonnage which was ordered before the oil crisis (and which cannot be occupied gainfully if at all). New ordering of tankers will remain insignificant as long as an excess of tankers and low freight rates persist. It is now generally realized that the oversupply situation in the tanker market will not pass away with the economic up-turn in the industrial countries but may well continue until 1980 or later. (Remember that the tanker surplus is primarily structural: during the ten years before the oil crisis, oil imports expanded by more than 8 percent a year, average distance increased by 4 percent a year and fleet productivity went up 15 percent during the period. The oil crisis meant a sudden reversal in all these positive long-term trends of demand.)

For the world's shipyards the new situation meant in the first place that new orders on tankers vanished already at the beginning of 1974. Moreover, a substantial part - more than 30 percent - of the orders on hand has been cancelled (equivalent to 1 1/2 years of production.) Remaining orderbooks cover generally production during 1976 and part of 1977. With present market outlook (no new orders for tankers) many of the world's big shipyards will have virtually no occupation in 1978 and 1979.

In a somewhat longer term the global overcapacity has emerged as the dominating problem for world shipbuilding. Future demand for big tankers will certainly be lower than was expected before, and lower than during the years before the oil crisis. Growing demand for other types of ship cannot compensate the decline of tanker demand. A considerable part of the shipbuilding capacity - 30 to 40 percent has been mentioned - will have to be eliminated

before balance and normal conditions are restored in the market for ships. Generally speaking, this is a pre-requisite for profitable production in the shipbuilding industry.

SWEDISH POLICY MEASURES

Aims

Shipbuilding policy measures in Sweden - initiated at the beginning of the 1960's - have persistently been conceived with the broadly accepted aims of general industrial policy in mind, i.e., to stimulate development of sectors of industry with especially good comparative advantages in Sweden. It then follows - as a first consideration - that capital and labour should not by restrictions to trade or by general subsidies be tied up in sectors with low (or no) profitability and low wage pay [1]. However, in particular cases (for economic security or regional development reasons) this might be justified, and the speed of the restructuring might have to be moderated due to its social and economic consequences. Further, durable differences in comparative advantage vis-a-vis other countries should not be compensated for by subsidies. Yet in cases where the difficulties are probably temporary, aid measures may not be excluded if the perspectives in the longer term are considered favourable. International trends of development and prospects, as also the industry's own ability to increase efficiency through structural adjustment and internal rationalization, have to be taken into account. In this context it is a prime aim of the authorities to uphold the viewpoint of the total national economy against particular interests. (Cit. from Government Bill of Shipbuilding 1970: 82.)

1) To which may now be added: with unhealthy work environment.

Measures and motivations

a) During the first period after the war (up to the beginning of 1960's) Swedish shipbuilding enjoyed - as did shipbuilding in other countries - the generally favorable international market trends, in the Swedish case enhanced by close contacts with the dynamic Norwegian shipping companies. A considerable development of technical skill and of production methods and equipment in the yards took place during this period.

Four big shipyards (of which three of old date) emerged as advanced producers of big tonnage (example, the new Gotaverken/Arendal yard of 1963 conceived for serial production). Of the smaller yards some turned to building specialized ships, some converted themselves to other production, and some simply closed down. No Government policy measure (besides available general instruments of the active labor market policy) were applied for this structural adaptation.

b) In the backlash of the first Su[illegible]-boom and the crushing Japanese capacity expansion, in[illegible]rnational competition in the ship markets turned ext[illegible]ely fierce during the first half of the 1960's. The Japanese yards offered excessively soft credit terms, including subsidized interest rates, which other shipbuilders had to meet. One of the fundamental and still main problems of international shipbuilding was posed: the financing (on soft terms) of the world's shipowners. Direct state subsidies and credits were introduced in most countries in order to prevent the collapse of the shipyards.

Swedish yards met the same financial difficulties, and it was evident that they could not themselves raise the capital required for buyer's credit. Nor was it possible to refinance the credits on the relatively small Swedish capital market, without discriminating heavily against other industries (the Swedish shipbuilding being a more important part of the economy than in other countries - output is considerably bigger than in France and UK, about 80% of production are exports). The Swedish solution - introduced in 1963 and later adjusted only in details - was that the Government provides guarantees, within certain limits, for loans obtained by Swedish shipyards predominantly on the international capital markets. The guarantees are used primarily as collateral

security for loans secured by mortgage above 50 percent of the ship's value. The yards have to provide acceptable securities for the guarantees. It is underlined that in the Swedish guarantee system no Government's credits are involved, and that there is no element of direct subsidy. The yards have to arrange the modalities of their loans themselves and to pay the full interest rate (even when, as is usually the case, the buyer's rate is lower). No losses on emitted guarantees have up to now affected the state, and the cost of administration is insignificant.

c) In one of the four big yards - Uddevallavarvet, founded by a Swedish shipowner in the early 1950's - the financial situation was, however, so serious that the introduced credit guarantees were insufficient. The yard stood close to bankruptcy. The yard being situated in a district with very low industrial employment, further assistance was strongly motivated by regional development reasons. A reconstruction was negotiated in 1963: the company's capital was written off against accrued losses and new capital was provided, 50 percent by the state and 50 percent by the Gothenburg shipyard of Eriksberg. The Eriksberg yard also undertook some management functions for Uddevalla. The Government provided further loan capital in 1965 and 1967 (together, 115 million Sw. crowns.) which, including interest, should be paid back before any dividents were paid. Of this loan amount 65 million Sw. crowns was written off in 1974. The remaining loan are be paid back in installments during 1979 - 1982.

d) The recovery of the tanker market after the second Suez-crisis (1967) brought some relief to shipbuilders. The Swedish yards, however, renewed, their demands for Government support, arguing - with some justification - that the world markets for ships, on which they were heavily dependent, was seriously distorted by state subsidies, both direct state aids and subsidized interest rates, and that they were the only ones that did not get any assistance from their Government. Those proposals were referred to a special Government Committee in 1967. The Committee's report published in February 1970 is here summarized in some detail, as it established the basic considerations behind Swedish shipbuilding policy (which got general support) and was later the basis for the Government's specific proposals.

The Committee stated on the basis of the long term view of the market that - in Sweden as in most other shipbuilding countries - the profit margins of the shipyards would be severely squeezed for a long time still, and that owing to the high level of Swedish wages the Swedish yards must perform at a particularly high degree of technical and commercial effeciency. It did not expect that the shipbuilding industry in Sweden would be either very expansive or especially profitable compared to other mechanical and engineering industries. Therefore the Committee concluded that no investments in new capacity ought to be made until the conditions of international competion could be viewed more clearly.

As to the short term perspective it was noted that employment in the yards was secured by orders on hand for almost three years, but that part of those orders had been contracted at prices that did not cover the yards' running costs, considering the interest rates the yards had to pay for financing their credits to the buyers. So the strain on the finances of the shipyard companies was judged to be great during the next years to come.

In the Committee's opinion it should not be in the interest of the Swedish economy if any of the existing big yards should have to be closed down owing to financial difficulties of a short term nature. Considering the impact on the Swedish foreign exchange balance and the employment in the yards and in the supplying industries, the Committee considered a temporary Government assistance to the yards compatible with the general interest. The Committee rejected any general system of subsidized interest rates to the shipbuilding industry. The assistance to the yards should be given in a way that did not incite investments in new capacity nor diminish the yards' interest in further rationalization and concentration. The Committee recommended that the Government continue the discussions directly with the shipyards where acute difficulties might appear in order to find appropriate solutions as to the future.

In March 1970, the Minister of Industry delivered to the Parliament a Bill on assistance to the shipbuilding industry (1970:82). Public credit guarantees were proposed to be granted to the shipyards totalling 1,000 million Sw. crowns for orders taken during 1970 and 1971 on same conditions as on the guarantees already emitted.

Further a substantial contribution to scientific and technical research was proposed: for the three next budget years in total 50 million Sw. crowns. The main part was intended to be used for special research projects in the shipyards that may improve their competitive position in the long run. The grants should be administered by the State Board for Technical Research on the basis of individual specified programs.

Finally it was stated that Government intended to open discussions directly with the yards where acute difficulties might appear in order to find appropriate solutions as to the future. In doing so the Government wanted to obtain a further concentration and a higher degree of cooperation between the four big Swedish yards.

e) Negotiations between the Government and the shipyards took place during the autumn of 1970 and the winter of 1971. The results were presented in a new Shipbuilding Bill in May 1971 (1971:117), which was accepted by the Parliament in June. The Bill contained four sections:

- financial reconstruction of the Götaverken yard;
- increase of the share capital of the Uddevalla yard;
- agreement on cooperation of the four big shipyards;
- the credit guarantee system.

(1) The reconstruction of Götaverken was negotiated by a specially appointed Government Commission. It was based on an offer from the Swedish shipping company Salen to provide new risk capital of 150 million crowns. Further the yard's customers agreed to contribute via an extra price charge totaling 175 million Sw. crowns, part of which being a loan to be repaid. Götaverken's old share capital was written down to 10 percent of the nominal value. At the same time, however, Salen offered to buy the old shares at a price of 25 percent of nominal value. The Government's contribution to the reconstruction was a loan of 75 million Sw. crowns free of interest and amortization until the end of 1974. Further the Government agreed to guarantee a 10 year loan also of 75 million crowns on the Swedish capital market at going market rates and conditions. On request by either the Government or Salen after the 1st of January, 1975,

the state loan should be converted into share capital. Should such a request not be put forward, the loan would from that date carry the same interest as the one emitted on the capital market.

(2) In order to strengthen the liquidity situation and to get a more normal balance between risk capital and turnover, the share capital of the Uddevalla yard was increased from 40 to 100 million Sw. crowns. A corresponding payment was made to the reserve fund. The yard became wholly state owned when the 50 percent of the old share capital, owned by th private Eriksberg's yard, was bought by AB Statsforetag, the state holding company organized in 1970.

(3) After negotiations under the chairmanship of the Undersecretary of State of the Ministry for Industry the four big Swedish shipbuilding companies Eriksberg, Götaverken, Kockums and Uddevallavarvet signed in April a formal agreement on cooperation. The agreement fell fully into line with the Government's policy of furthering effectivity a sound utilization of the country's labor and capital resources. Its aim was to strengthen the competitiveness of the four individual yards through concerted action, and it provides for no limitations of the four yard's freedom of action. It defines objectives for cooperation in specified fields, such as market research and marketing, specialization of production, technical research and development, investment planning and financing. It is agreed that the four companies undertake to investigate carefully the possibilities to coordinate their use and production of big ship machinery, possibly in the form of a jointly owned development and production company. The cooperation efforts should be led by a Steering Committee comprising the Chairmen and the Managing Directors of the four companies: a Chairman and a Vice Chairman were to be appointed, in agreement with the companies, by the Minister of Industry.

(The Steering Committee mentioned here was transformed in 1974 into a Shipbuilding Council, which includes equal numbers of representatives for management and workers. The Chairman is the Undersecretary of State in the Ministry. At the same time there was instituted an extensive information system comprising

production, employment, investment and financing during an actual period and also plans and projections for coming years.)

(4) Finally the new Shipbuilding Bill provided for a continuation of the established system of credit guarantees to the yards' borrowing on the Swedish and international capital markets for the refinancing of their credits to the buyers. It was decided to guarantee a total amount of 3,500 million Sw. crowns for the financing of ships produced during the years 1972-76. The amount was calculated to cover the needs for a production volume not bigger than the present one. Some technical changes in the guarantee system were made.

f) In February 1975 the Government set up a special Commission with instructions to examine the situation of the Eriksberg shipyard in Gothenberg. The Commission's first task was to try to effect the necessary financial reprieve in order to avoid bankruptcy. By negotiation with EMW's owner - the Gothenberg Shipping Co. Tirfing - this company undertook to guarantee EMW's solvency until the end of the 2nd quarter of 1975. The Commission submitted a first report in April with proposals for a temporary solution. This contains a protocol signed by the mother company Tirfing. Based on this proposal the Government presented a Bill to the Parliament in May 1975, which was accepted in the same month by the Parliament.

The temporary solution contains an acceptance by the mother company Tirfing to contribute 225 million Sw. crowns to EMW to cover losses during 1974. Further, Tirfing places an order with EMW for two specially equipped bulk carriers at a price of 237 million in Sw. crowns. The Government undertakes to guarantee a loan to Tirfing of 150 million Sw. crowns to be paid back in 10 years. The loan carries the ordinary market rate, 9 percent. Tirfing accepts that the Government take over 100 percent of the shares in a formal amount of 1000 Sw. crowns. This was effected on July 1st.

It was concluded in the Commission's report, that it was unavoidable that the work force employed by EMW would have to be reduced by some 1,500 workers before the end of 1976. It is further marked out in the

Government Bill that the final solution should involve an increased degree of coordination within the shipbuilding industry, in first hand in the Gothenburg area.

g) During the last year the shipbuilding situation has been carefully analysed in Sweden. Undoubtedly, the oil crisis of October 1973 constituted a new and unpredictable factor with great influence on the state and development of the world's shipping and shipbuilding markets. The long-term effects on oil consumption and imports and their implication on the oil freight market could probably have been, after the immediate shock effect, relatively easy to assimilate. Parallel to this occured, however, the effects of the enormous order-boom of 1973. The coincidence of these two factors have brought the world's shipping and shipbuilding industries into a situation where considerable measures of adaptation are called for.

Against this background the situation of Swedish shipbuilding has been carefully examined. Intense discussions and negotiations (comprising Government, the management and employees of the 4 big yards and also shipping companies) have resulted in a broad consensus between all the parties concerned, first of all on the assessment of the situation and on the conclusion that the world's shipbuilding has to be reduced substantially in order to balance an expected lower level of demand for ships. As one of the more important shipbuilding countries, Sweden will naturally have to take her part of the necessary reduction. This has been reflected in the production planning on industry and company level for the years 1976-1978. From the 1974 level and up to the end of 1978, the total volume of employment of the 4 big yards will be reduced by 30 percent, which means a reduction of some 8,000 in the number employed in the shipyards.

In March 1976 the Swedish Government presented to the Parliament a Bill regarding the shipbuilding industry (1975/76:121.) There was general acceptance of the Governments proposals at the end of May when the Parliament accepted this Bill.

The Minister of Industry underlined that the proposals put forward in the Bill are based on the opinion that a world-wide reduction of shipbuilding capacity over the next few years is necessary to restore the balance between supply and demand. The Minister also stressed the importance of international cooperation in this field and that Sweden is prepared to take her part of the responsibility if the major shipbuilding countries do likewise.

Against this background it has been of utmost importance to find means to make it possible for the Swedish shipyards to adapt to a substantially lower level of production. This procedure must be carried out in socially acceptable forms. Such an adaptation must be achieved by a combination of structural means and guarantee facilities from the Government's side.

(1) Guarantee facilities. The Swedish guarantee system is based on state guarantees and not on direct loans. The guarantee is given to the shipyard and gives access to the international capital markets. In the Bill some changes are proposed in the existing credit guarantee system.

In order to intensify the Government control on the guarantee system an advisory board is proposed to be appointed. The fundamental task of this board is to make the comprehensive judgment of the credit risk attached to each credit guarantee before the decision is made whether to issue the guarantee or not. The board will have the opportunity, if necessary, to request the yard to furnish additional securities and also to decide upon the maturity of the guarantee.

A guarantee fee of 0.25 percent per year is introduced.

The existing guarantee scheme is also proposed to be extended to include "production for own account." A credit guarantee may be issued during the production period for ships without an external buyer. The aim of this facility is to create possibilities for the Swedish shipbuilding industry, in a very serious

market situation, to survive and to adapt orderly to a lower level of production. The proposed reduction of capacity is a result of intense negotiations betweeen the Government and the major shipyards. The yards have declared their willingness to cooperate in a reduction of capacity of about 30 percent in terms of manpower. The level of this reduction would result in a decrease of the labor force at the major yards, excluding subcontractors, totaling 8,000 persons. Measured in DWT it is comparable to a reduction of about 50 percent.

The proposed extension of the guarantee system for stock production is temporary and it is limited to production of ships up to the end of 1978. Without this facility the shipyards could have been forced to fully cease their production of ships and as a consequence Sweden would have faced a labor market problem of unacceptable dignity. It is strongly stressed in the Bill that issuing of guarantees for production for own accout is strictly bound to the stipulated reduction of employment. If there will be no reduction of employment there will be no guarantees. It is up to the individual yard to choose what kind of ship to produce. Thus the system implies that the production and the marketing of the ship is fully the yard's own responsibility and risk.

The proposed total volume of credit guarantees for the years 1976-1978 amounts to 12,900 million Sw. crowns. Thereof the volume of guarantees for stock production is calculated at 3,600 million Sw. crowns.

(2) Reorganization of the Gothenburg shipyards. As mentioned avove the Swedish state took over the Eriksberg shipyard in Gothenburg as part of a temporary solution. The former owners - the Tirfing group - accepted to pay 225 million Sw. crowns to cover already stated losses.

During 1975 negotiations were held between the Government and the owner of the Gotaverken-group, which is the other big shipyard in Gothenberg. These negotiations resulted in an agreement regarding a complete amalgamation of the two yards. This agreement is part of the Government Bill, and the agreement is an essential part of the reorganization

of the shipbuilding industry in Gothenburg. The state transfers its shares in Eriksberg to the Götaverken-group and purchases shares in Gotaverken for 136 million Sw. crowns and converts an old loan of 45 million Sw. crowns into share capital. The state will in this way control 51 percent of the shares in Götaverken.

(3) In conclusion: The Swedish Bill on shipbuilding policy is built on a general consensus between Government, the shipyards and the employees. This consensus is based upon the opinion that the world's shipbuilding capacity must be reduced essentially, and that Sweden is prepared to take her share of the necessary reduction. The agreed and planned reduction of capacity in the Swedish shipbuilding industry until the end of 1978 is founded on the expectation that other major shipbuilding countries do likewise. If this will not be the case, the fundament behind the broad consensus will disappear; as a consequence Sweden might be forced to reconsider her shipbuilding policy.

It should also be observed that the reduction of capacity of 30 pecent measured in terms of labor input is planned to take place during 1976-1978, and that the capacity development after 1978 will be considered at a later stage in light of the future development of the market situation. Thus the proposals put forward in the Bill and accepted by the Parliament is to be regarded as a preconditioned first step towards a planned adaptation of the Swedish shipbuilding industry to changes in the market situation.

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ADDENDUM: OECD's WORKING PARTY NO. 6 ON SHIPBUILDING

It has constantly been an important part of Swedish shipbuilding policy to work for restoring normal conditions of competition on the international markets for ships. The center for this work has been the WP (6) of OECD, which was established in 1965 on the initiative of the Swedish Minister of Finance. The following results from its work may be kept in mind.

(1) After an initial period of examination, WP(6) concentrated on the extremely favorable buyer's credit terms, which constituted a heavy burden on shipbuilding (and Governments.) In July 1969, 13 of the OECD Member Countries agreed to an "Understanding" on minimum terms for credits: at least 6 percent buyer's interest and 20 percent down payment and at most an 8 year credit period. On Swedish proposals the terms have been strengthened gradually: in 1971 to 7 1/2 percent; in 1974 to 8 percent, 30 percent, and 7 years, respectively. The terms have been accepted as normative.

(2) The great variety of direct aids and subsidies to shipbuilding that had developed in most countries during the 1960's were (mostly) brought into a "package deal" between the same countries, the "General Agreement", which stipulated abolition over a period of three years. The commitments have been fulfilled with few exceptions, and take the Agreement was prolonged ("stand-still") in March 1976.

(3) In October 1972 WP(6) instructed a Sub-Group (Swedish chairman) to follow and inform the WP(6) regularly on the demand and supply situation for ships. In June 1973 - before the oil crisis - the Sub-Group reported and pointed to the probability that a substantial overcapacity in the world's shipbuilding would develop during the second half of the 1070's.

(4) At a meeting at end of March 1976, the WP(6) agreed on a framework for Government policies, "General Guidelines for Government Policies in the Shipbuilding Industry", which the OECD Council adopted in May. A reduction of production capacity is agreed to be a priority aim. Statements by the Member Governments in relation to the Guidelines are attached to the agreements.

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